DONOVAN KEVIN M
Form 4
March 07, 2012

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
DONOVAN KEVIN M
(Last) (First) (Middle)
325 CORPORATE DRIVE
(Street)
PORTSMOUTH, NH 03801
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
BOTTOMLINE TECHNOLOGIES INC /DE/ [EPAY]

3. Date of Earliest Transaction (Month/Day/Year)
03/05/2012

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chief Financial Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	03/05/2012		S (1)		371	D	$ 28.4238	85,384	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
DONOVAN KEVIN M 325 CORPORATE DRIVE PORTSMOUTH, NH 03801			Chief Financial Officer	

Signatures

Kevin M. Donovan	03/07/2012
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) PLANNED TAX SALE. Proceeds from the sale used to satisfy minimum statutory withholding obligations pursuant to a 10b5-1 trading plan.

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2012
$ 74,752 $ 3,713
2013
83,115 4,590
2014
76,070 5,084
2015
65,544 4,780
2016
57,646 4,442
Thereafter
232,050 17,644

(11) Accrued and Other Liabilities

Accrued and other current liabilities consist of the following:

	September 30, 2011	September 30, 2010
Wages and benefits	$ 72,945	$ 94,422
Income taxes payable	31,606	37,118
Restructuring and related charges	16,187	23,793
Accrued interest	50,389	31,652
Accrued dividends on Preferred Stock	7,123	
Other	139,379	126,632
	$ 317,629	$ 313,617

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Insurance Other liabilities consist of the following:

		September 30, 2011
Retained asset account	$	191,452
Funds withheld from reinsurers		52,953
Remittances and items not allocated		34,646
Accrued expenses		20,612
Amounts payable for investment purchases		13,353
Amounts payable to reinsurers		13,884
Derivatives futures contracts		3,828
Other		46,799
	$	377,527

(12) Debt

The Company s consolidated debt consists of the following:

	September 30, 2011			September 30, 2010		
		Amount	Rate		Amount	Rate
HGI:						
10.625% Senior Secured Notes, due November 15, 2015	$	500,000	10.625%	$		
Spectrum Brands:						
Term loan, due June 17, 2016		525,237	5.1%		750,000	8.1%
9.5% Senior Secured Notes, due June 15, 2018		750,000	9.5%		750,000	9.5%
12% Notes, due August 28, 2019		245,031	12.0%		245,031	12.0%
ABL Revolving Credit Facility, expiring April 21, 2016			2.5%			4.1%
Other notes and obligations		19,333	10.5%		13,605	10.8%
Capitalized lease obligations		24,911	6.2%		11,755	5.2%
		2,064,512			1,770,391	
Original issuance discounts on debt, net		(15,732)			(26,624)	
Less current maturities		16,090			20,710	
Long-term debt Consumer Products and Other	$	2,032,690		$	1,723,057	
FGL:						
Note payable Insurance	$	95,000		$		

Aggregate scheduled maturities of debt as of September 30, 2011 are as follows:

Fiscal Year	**Scheduled Maturities**
2012	$ 111,090
2013	14,347
2014	8,792
2015	8,376
2016	1,005,974
Thereafter	1,010,933
	$ 2,159,512

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Aggregate capitalized lease obligations included in the amounts above are payable in installments of $2,645 in 2012, $2,208 in 2013, $1,671 in 2014, $1,255 in 2015, $1,230 in 2016 and $15,902 thereafter.

HGI

On November 15, 2010 and June 28, 2011, HGI issued $350,000 and $150,000, respectively, or $500,000 aggregate principal amount of 10.625% Senior Secured Notes due November 15, 2015 (10.625% Notes). The 10.625% Notes were sold only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the Securities Act), and to certain persons in offshore transactions in reliance on Regulation S, but were subsequently registered under the Securities Act. The 10.625% Notes were issued at an aggregate price equal to 99.311% of the principal amount thereof, with a net original issue discount (OID) of $3,445. Interest on the 10.625% Notes is payable semi-annually, commencing on May 15, 2011 and ending November 15, 2015. The 10.625% Notes are collateralized with a first priority lien on substantially all of the assets directly held by HGI, including stock in its subsidiaries (with the exception of Zap.Com, but including Spectrum Brands, Harbinger F&G, LLC (HFG), the wholly-owned parent of FGL, and HGI Funding) and HGI s directly held cash and investment securities.

HGI has the option to redeem the 10.625% Notes prior to May 15, 2013 at a redemption price equal to 100% of the principal amount plus a make-whole premium and accrued and unpaid interest to the date of redemption. At any time on or after May 15, 2013, HGI may redeem some or all of the 10.625% Notes at certain fixed redemption prices expressed as percentages of the principal amount, plus accrued and unpaid interest. At any time prior to November 15, 2013, HGI may redeem up to 35% of the original aggregate principal amount of the 10.625% Notes with net cash proceeds received by HGI from certain equity offerings at a price equal to 110.625% of the principal amount of the 10.625% Notes redeemed, plus accrued and unpaid interest, if any, to the date of redemption, provided that redemption occurs within 90 days of the closing date of such equity offering, and at least 65% of the aggregate principal amount of the 10.625% Notes remains outstanding immediately thereafter.

The indenture governing the 10.625% Notes contains covenants limiting, among other things, and subject to certain qualifications and exceptions, the ability of HGI, and, in certain cases, HGI s subsidiaries, to incur additional indebtedness; create liens; engage in sale-leaseback transactions; pay dividends or make distributions in respect of capital stock; make certain restricted payments; sell assets; engage in certain transactions with affiliates; or consolidate or merge with, or sell substantially all of its assets to, another person. HGI is also required to maintain compliance with certain financial tests, including minimum liquidity and collateral coverage ratios that are based on the fair market value of the assets held directly by HGI, including our equity interests in Spectrum Brands and our other subsidiaries such as HFG and HGI Funding. At September 30, 2011, the Company was in compliance with all covenants under the 10.625% Notes.

HGI incurred $16,200 of costs in connection with its issuance of the 10.625% Notes. These costs are classified as Deferred charges and other assets in the accompanying Consolidated Balance Sheet as of September 30, 2011 and, along with the OID, are being amortized to interest expense utilizing the effective interest method over the term of the 10.625% Notes.

Spectrum Brands

In connection with the SB/RH Merger, on June 16, 2010, Spectrum Brands (i) entered into a new senior secured term loan pursuant to a new senior credit agreement consisting of a $750,000 U.S. dollar term subsequently refinanced in

February 2011 (the Term Loan), (ii) issued $750,000 in aggregate principal amount of 9.5% Senior Secured Notes due June 15, 2018 (the 9.5% Notes) and (iii) entered into a $300,000 U.S. Dollar asset based revolving loan facility (the ABL Revolving Credit Facility). The proceeds from such financings were used to repay Spectrum Brands then-existing senior term credit facility (the Prior Term Facility) and Spectrum Brands

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

then-existing asset based revolving loan facility, to pay fees and expenses in connection with the refinancing and for general corporate purposes.

The 9.5% Notes and 12% Notes were issued by SBI. SB/RH Holdings, LLC, a wholly-owned subsidiary of Spectrum Brands, and the wholly owned domestic subsidiaries of SBI are the guarantors under the 9.5% Notes. The wholly owned domestic subsidiaries of SBI are the guarantors under the 12% Notes. Spectrum Brands is not an issuer or guarantor of the 9.5% Notes or the 12% Notes. Spectrum Brands is also not a borrower or guarantor under the SBI term loan or the ABL Revolving Credit Facility. SBI is the borrower under the Term Loan and its wholly owned domestic subsidiaries along with SB/RH Holdings, LLC are the guarantors under that facility. SBI and its wholly owned domestic subsidiaries are the borrowers under the ABL Revolving Credit Facility and SB/RH Holdings, LLC is a guarantor of that facility.

Senior Term Credit Facility

On February 1, 2011, Spectrum Brands completed the refinancing of its term loan facility, which was initially established in connection with the SB/RH Merger, and at February 1, 2011, had an aggregate amount outstanding of $680,000, with an amended and restated credit agreement (together with the amended ABL Revolving Credit Facility, the Senior Credit Facilities) at a lower interest rate. The Term Loan was issued at par and has a maturity date of June 17, 2016. Subject to certain mandatory prepayment events, the Term Loan is subject to repayment according to a scheduled amortization, with the final payment of all amounts outstanding, plus accrued and unpaid interest, due at maturity. Among other things, the Term Loan provides for interest at a rate per annum equal to, at Spectrum Brands option, the LIBO rate (adjusted for statutory reserves) subject to a 1.00% floor plus a margin equal to 4.00%, or an alternate base rate plus a margin equal to 3.00%.

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

In connection with voluntary prepayments of $220,000 of term debt and the refinancing of the Term Loan, during Fiscal 2011, Spectrum Brands recorded charges to interest expense aggregating $37,544, consisting of (i) the accelerated amortization of debt issuance costs and original issue discount totaling $31,891 and (ii) prepayment penalties of $5,653. Spectrum Brands incurred $10,545 of fees in connection with the Term Loan, which are classified as Deferred charges and other assets in the accompanying Consolidated Balance Sheet as of September 30, 2011 and are being amortized to interest expense utilizing the effective interest method over the term of the Term Loan.

9.5% Notes

Spectrum Brands may redeem all or a part of the 9.5% Notes, upon not less than 30 or more than 60 days notice at specified redemption prices. Further, the indenture governing the 9.5% Notes (the 2018 Indenture) requires Spectrum

Brands to make an offer, in cash, to repurchase all or a portion of the applicable outstanding notes for a specified redemption price, including a redemption premium, upon the occurrence of a change of control of Spectrum Brands, as defined in such indenture.

The 2018 Indenture contains customary covenants that limit, among other things, the incurrence of additional indebtedness, payment of dividends on or redemption or repurchase of equity interests, the making of certain

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

investments, expansion into unrelated businesses, creation of liens on assets, merger or consolidation with another company, transfer or sale of all or substantially all assets, and transactions with affiliates.

In addition, the 2018 Indenture provides for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments on or acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the 2018 Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 9.5% Notes. If any other event of default under the 2018 Indenture occurs and is continuing, the trustee for the 2018 Indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 9.5% Notes may declare the acceleration of the amounts due under those notes.

The 9.5% Notes were issued at a 1.37% discount and were recorded net of the $10,245 amount incurred. The discount is being amortized as an adjustment to the carrying value of principal with a corresponding charge to interest expense over the remaining life of the 9.5% Notes. During Fiscal 2010, Spectrum Brands recorded $20,823 of fees in connection with the issuance of the 9.5% Notes. The fees are classified as Deferred charges and other assets within the accompanying Consolidated Balance Sheets and are being amortized as an adjustment to interest expense over the remaining term of the 9.5% Notes.

12% Notes

On August 28, 2009, in connection with emergence from the voluntary reorganization under Chapter 11 of the Bankruptcy Code, Spectrum Brands issued $218,076 in aggregate principal amount of 12% Notes maturing August 28, 2019. Semiannually, at its option, Spectrum Brands may elect to pay interest on the 12% Notes in cash or as payment in kind, or PIK . PIK interest is added to principal upon the relevant semi-annual interest payment date. Under the Prior Term Facility, Spectrum Brands agreed to make interest payments on the 12% Notes through PIK for the first three semi-annual interest payment periods following the Effective Date. As a result of the refinancing of the Prior Term Facility Spectrum Brands is no longer required to make interest payments as payment in kind after the semi-annual interest payment date of August 28, 2010. At both September 30, 2011 and September 30, 2010, Spectrum Brands had outstanding principal of $245,031, under the 12% Notes, including PIK interest of $26,955 that was added to principal during Fiscal 2010.

Spectrum Brands may redeem all or a part of the 12% Notes, upon not less than 30 or more than 60 days notice, beginning August 28, 2012 at specified redemption prices. Further, the indenture governing the 12% Notes (the 2019 Indenture) requires Spectrum Brands to make an offer, in cash, to repurchase all or a portion of the applicable outstanding notes for a specified redemption price, including a redemption premium, upon the occurrence of a change of control of Spectrum Brands, as defined in such indenture.

The 2019 Indenture contains customary covenants that limit, among other things, the incurrence of additional indebtedness, payment of dividends on or redemption or repurchase of equity interests, the making of certain investments, expansion into unrelated businesses, creation of liens on assets, merger or consolidation with another company, transfer or sale of all or substantially all assets, and transactions with affiliates of Spectrum Brands.

In addition, the 2019 Indenture provides for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments on acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the 2019 Indenture arising

from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 12% Notes. If any other event of default under the 2019 Indenture occurs and is continuing, the trustee for the 2019 Indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 12% Notes may declare the acceleration of the amounts due under those notes.

In connection with the SB/RH Merger, Spectrum Brands obtained the consent of the note holders to certain amendments to the 2019 Indenture (the Supplemental Indenture). The Supplemental Indenture became effective upon the closing of the SB/RH Merger. Among other things, the Supplemental Indenture amended the definition of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

change in control to exclude the Principal Stockholders and increased Spectrum Brands ability to incur indebtedness up to $1,850,000.

During Fiscal 2010, Spectrum Brands recorded $2,966 of fees in connection with the consent. The fees are classified as Deferred charges and other assets within the accompanying Consolidated Balance Sheets and are being amortized as an adjustment to interest expense over the remaining term of the 12% Notes effective with the closing of the SB/RH Merger.

ABL Revolving Credit Facility

On April 21, 2011, Spectrum Brands amended the ABL Revolving Credit Facility. The amended facility carries an interest rate, at Spectrum Brand s option, which is subject to change based on availability under the facility, of either: (a) the base rate plus currently 1.25% per annum or (b) the reserve-adjusted LIBO rate (the Eurodollar Rate) plus currently 2.25% per annum. No amortization is required with respect to the ABL Revolving Credit Facility. The ABL Revolving Credit Facility is scheduled to expire on April 21, 2016.

The ABL Revolving Credit Facility is governed by a credit agreement (the ABL Credit Agreement) with Bank of America as administrative agent (the Agent). The ABL Revolving Credit Facility consists of revolving loans (the Revolving Loans), with a portion available for letters of credit and a portion available as swing line loans, in each case subject to the terms and limits described therein.

The Revolving Loans may be drawn, repaid and reborrowed without premium or penalty. The proceeds of borrowings under the ABL Revolving Credit Facility are to be used for costs, expenses and fees in connection with the ABL Revolving Credit Facility, for working capital requirements of Spectrum Brands and its subsidiaries , restructuring costs, and other general corporate purposes.

The ABL Credit Agreement contains various representations and warranties and covenants, including, without limitation, enhanced collateral reporting, and a maximum fixed charge coverage ratio. The ABL Credit Agreement also provides for customary events of default, including payment defaults and cross-defaults on other material indebtedness.

During Fiscal 2010, Spectrum Brands recorded $9,839 of fees in connection with the ABL Revolving Credit Facility and, during Fiscal 2011, recorded $2,071 of fees in connection with the amendment. The fees are classified as Deferred charges and other assets within the accompanying Consolidated Balance Sheets and are being amortized as an adjustment to interest expense over the remaining term of the ABL Revolving Credit Facility. Pursuant to the credit and security agreement, the obligations under the ABL credit agreement are secured by certain current assets of the guarantors, including, but not limited to, deposit accounts, trade receivables and inventory.

As a result of borrowings and payments under the ABL Revolving Credit Facility at September 30, 2011, Spectrum Brands had aggregate borrowing availability of approximately $176,612, net of lender reserves of $48,769 and outstanding letters of credit of $32,962.

FGL

On April 7, 2011, Raven Reinsurance Company (Raven Re), a newly-formed wholly-owned subsidiary of FGL, issued a $95,000 surplus note to OMGUK, as discussed further in Note 20. The surplus note was issued at par and carried a 6% fixed interest rate. The note had a maturity date which was the later of (i) December 31, 2012 or (ii) the date on which all amounts due and payable to the lender have been paid in full. The note was settled on October 17, 2011 in connection with the closing of the Raven Springing amendment and the replacement of the Reserve Facility (see Note 29).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) Temporary Equity

On May 13, 2011 and August 5, 2011, the Company issued 280 shares of Series A Preferred Stock and 120 shares of Series A-2 Preferred Stock, respectively, in private placements pursuant to securities purchase agreements, for aggregate gross proceeds of $400,000. The Preferred Stock (i) is redeemable for cash (or, if a holder does not elect cash, automatically converted into common stock) on May 13, 2018, (ii) is convertible into the Company s common stock at an initial conversion price of $6.50 per share for the Series A and $7.00 per share for the Series A-2, both subject to anti-dilution adjustments, (iii) has a liquidation preference of the greater of 150% of the purchase price or the value that would be received if it were converted into common stock, (iv) accrues a cumulative quarterly cash dividend at an annualized rate of 8% and (v) has a quarterly non-cash principal accretion at an annualized rate of 4% that will be reduced to 2% or 0% if the Company achieves specified rates of growth measured by increases in its net asset value. The Preferred Stock is entitled to vote, subject to certain regulatory limitations, and to receive cash dividends and in-kind distributions on an as-converted basis with the common stock.

If the Company were to issue certain equity securities at a price lower than the conversion price of the respective series of Preferred Stock, the conversion price would be adjusted downward to reflect the dilutive effect of the newly issued equity securities (a down round provision). Therefore, in accordance with the guidance in ASC 815, *Derivatives and Hedging*, the conversion feature requires bifurcation and must be separately accounted for as derivative liabilities at fair value with any changes in fair value reported in current earnings (see Note 6). The Company valued the conversion feature using the Monte Carlo simulation approach, which utilizes various inputs including the Company s stock price, volatility, risk-free rate and discount yield.

As of the respective issuance dates, the Company determined the fair values of the bifurcated conversion feature were approximately $85,700 for the Series A and approximately $17,560 for the Series A-2. The residual $296,740 aggregate value of the host contracts, less $14,027 of issuance costs, has been classified as temporary equity, as the securities are redeemable at the option of the holder and upon the occurrence of an event that is not solely within the control of the issuer. The resulting $117,287 difference between the issuance price and initial carrying value of $282,713 is being accreted to Preferred stock dividends and accretion in the accompanying Consolidated Statements of Operations using the effective interest method over the Preferred Stock s contractual/expected life of approximately seven years through May 13, 2018.

The carrying value of Preferred Stock reflects the following components as of September 30, 2011:

	Series A (280 Shares)	**Series A-2 (120 Shares)**	**Total**
Initial issuance price	$ 280,000	$ 120,000	$ 400,000
Principal accretion	4,308	747	5,055
Redemption value	284,308	120,747	405,055
Bifurcation of embedded conversion feature on issuance	(85,700)	(17,560)	(103,260)
Issuance costs	(11,058)	(2,969)	(14,027)
Accretion	4,210	459	4,669

$ 191,760	$ 100,677	$ 292,437

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Permanent Equity

Accumulated Other Comprehensive Income (Loss)

Amounts recorded in AOCI in the accompanying Consolidated Statements of Permanent Equity (Deficit) and Comprehensive Income (Loss) consist of the following components:

	Unrealized Investment Gains, net	Non-credit Related Other-than-temporary Impairments	Other Unrealized Gains (Losses)- Cash Flow Hedges	Actuarial Adjustments to Pension Plans	Cumulative Translation Adjustments	Total
Balances at August 30, 2009, Successor(A)	$	$	$	$	$	$
Gross change before reclassification adjustment			867	57	6,226	7,150
Net reclassification adjustment for losses (gains) included in earnings						
Gross change after reclassification adjustment			867	57	6,226	7,150
Deferred tax effect			(16)	519	(330)	173
Deferred tax valuation allowance				(766)	11	(755)
Net adjustment to AOCI			851	(190)	5,907	6,568
Balances at September 30, 2009, Successor	$	$	$ 851	$ (190)	$ 5,907	$ 6,568
Gross change before reclassification adjustment			(15,621)	(29,141)	11,511	(33,251)
Net reclassification adjustment for losses (gains) included in earnings			6,356	1,355		7,711
Gross change after reclassification adjustment			(9,265)	(27,786)	11,511	(25,540)
Deferred tax effect			2,775	8,904	1,085	12,764
Deferred tax valuation allowance			(116)	(2,763)	481	(2,398)
Noncontrolling interest			1,276	8,084	(12,682)	(3,322)

Net adjustment to AOCI			(5,330)	(13,561)	395	(18,496)
Noncontrolling interest recapitalization adjustment			1,342	1,347	4,044	6,733
Balances at September 30, 2010, Successor	$	$	$ (3,137)	$ (12,404)	$ 10,346	$ (5,195)
Gross change before reclassification adjustment	420,929	500	(5,992)	(7,609)	(12,857)	394,971
Net reclassification adjustment for losses (gains) included in earnings	(3,861)		13,422	8		9,569
Gross change after reclassification adjustment	417,068	500	7,430	(7,601)	(12,857)	404,540
Intangible assets adjustment	(172,057)	(206)				(172,263)
Deferred tax effect	(85,709)	(103)	(2,671)	2,037	2,742	(83,704)
Deferred tax valuation allowance			(331)	3,529	(492)	2,706
Noncontrolling interest			(2,128)	373	5,436	3,681
Net adjustment to AOCI	159,302	191	2,300	(1,662)	(5,171)	154,960
Change in noncontrolling interest			132	278	(727)	(317)
Balances at September 30, 2011, Successor	$ 159,302	$ 191	$ (705)	$ (13,788)	$ 4,448	$ 149,448
Cumulative components at September 30, 2011:						
Gross amounts (after reclassification adjustments)	$ 417,068	$ 500	$ (968)	$ (35,330)	$ 4,880	$ 386,150
Intangible assets adjustments	(172,057)	(206)				(172,263)
Tax effects	(85,709)	(103)	(359)	11,460	3,497	(71,214)
Noncontrolling interest			622	10,082	(3,929)	6,775
	$ 159,302	$ 191	$ (705)	$ (13,788)	$ 4,448	$ 149,448
Cumulative components at September 30, 2010:						
Gross amounts (after reclassification adjustments)	$	$	$ (8,398)	$ (27,729)	$ 17,737	$ (18,390)
Intangible assets adjustments						
Tax effects			2,643	5,894	1,247	9,784
Noncontrolling interest			2,618	9,431	(8,638)	3,411
	$	$	$ (3,137)	$ (12,404)	$ 10,346	$ (5,195)

(A) Predecessor AOCI balances were eliminated upon adoption of fresh-start reporting.

Restricted Net Assets of Subsidiaries

HGI s equity in restricted net assets of consolidated subsidiaries was approximately $1,173,000 as of September 30, 2011, representing 132% of HGI s consolidated stockholders equity as of September 30, 2011 and consisted of net

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

assets of FGL and Spectrum Brands, less noncontrolling interest, which were restricted as to transfer to HGI in the form of cash dividends, loans or advances under regulatory or debt covenant restrictions.

(15) Employee Benefit Plans

Defined Benefit Plans

HGI

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

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

Spectrum Brands

Spectrum Brands has various defined benefit pension plans (the Spectrum Brands Pension Plans) covering some of its employees in the United States and certain employees in other countries, primarily the United Kingdom and Germany. The Spectrum Brands Pension Plans generally provide benefits of stated amounts for each year of service. Spectrum Brands funds its U.S. pension plans in accordance with the requirements of the defined benefit pension plans and, where applicable, in amounts sufficient to satisfy the minimum funding requirements of applicable laws. Additionally, in compliance with Spectrum Brands funding policy, annual contributions to non-U.S. defined benefit plans are equal to the actuarial recommendations or statutory requirements in the respective countries.

Spectrum Brands also sponsors or participates in a number of other non-U.S. pension arrangements, including various retirement and termination benefit plans, some of which are covered by local law or coordinated with government-sponsored plans, which are not significant in the aggregate and therefore are not included in the information presented below. Spectrum Brands also has various nonqualified deferred compensation agreements with certain of its employees. Under certain of these agreements, Spectrum Brands has agreed to pay certain amounts annually for the first 15 years subsequent to retirement or to a designated beneficiary upon death. It is management s intent that life insurance contracts owned by Spectrum Brands will fund these agreements. Under the remaining agreements, Spectrum Brands has agreed to pay such deferred amounts in up to 15 annual installments beginning on a date specified by the employee, subsequent to retirement or disability, or to a designated beneficiary upon death.

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

Consolidated

The recognition and disclosure provisions of ASC Topic 715: *Compensation-Retirement Benefits* (ASC 715) requires recognition of the overfunded or underfunded status of defined benefit pension and postretirement plans as an asset or liability in the consolidated balance sheet, and to recognize changes in that funded status in AOCI. In accordance with the measurement date provisions of ASC 715, the Company measures all of its defined benefit pension and postretirement plan assets and obligations as of September 30, which is the Company s fiscal year end.

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables provide additional information on the Company s pension and other postretirement benefit plans which principally relate to Spectrum Brands:

	Pension and Deferred Compensation Benefits		Other Benefits	
	2011	2010	2011	2010
Change in benefit obligation:				
Benefit obligation, beginning of year	$ 234,807	$ 132,752	$ 527	$ 476
Obligations assumed in merger with Russell Hobbs		54,468		
Obligations of HGI plans as of June 16, 2010		18,691		
Service cost	2,543	2,479	11	9
Interest cost	11,239	8,515	27	26
Actuarial (gain) loss	(9,022)	26,474	(21)	25
Participant contributions	189	495		
Benefits paid	(10,189)	(6,997)	(2)	(9)
Foreign currency exchange rate changes	(905)	(2,070)		
Benefit obligation, end of year	$ 228,662	$ 234,807	$ 542	$ 527
Change in plan assets:				
Fair value of plan assets, beginning of year	$ 140,072	$ 78,345	$	$
Assets acquired in merger with Russell Hobbs		38,458		
Assets of HGI plans as of June 16, 2010		14,433		
Actual return on plan assets	(501)	8,127		
Employer contributions	13,280	6,264	2	9
Employee contributions	1,821	2,127		
Benefits paid	(10,189)	(6,997)	(2)	(9)
Plan expenses paid	(226)	(237)		
Foreign currency exchange rate changes	(589)	(448)		
Fair value of plan assets, end of year	$ 143,668	$ 140,072	$	$
Accrued Benefit Cost/Funded Status	$ (84,994)	$ (94,735)	$ (542)	$ (527)
Weighted-average assumptions:				
Discount rate	4.0%-13.6%	3.8%-13.6%	5.0%	5.0%
Expected return on plan assets	3.0%-7.8%	4.5%-8.8%	N/A	N/A
Rate of compensation increase	0%-5.5%	0%-5.5%	N/A	N/A

The net underfunded status as of September 30, 2011 and September 30, 2010 of $84,994 and $94,735, respectively, is recognized in the accompanying Consolidated Balance Sheets within Employee benefit obligations . Included in AOCI as of September 30, 2011 and September 30, 2010 are unrecognized net (losses) gains of $(13,788), net of tax of $11,460 and noncontrolling interest of $10,082, and $(12,404), net of tax of $5,894 and noncontrolling interest of

$9,431, respectively, which have not yet been recognized as components of net periodic pension cost. The net loss in AOCI expected to be recognized during Fiscal 2012 is $(720).

At September 30, 2011, the Company s total pension and deferred compensation benefit obligation of $228,662 consisted of $86,801 associated with U.S. plans and $141,861 associated with international plans. The fair value of the Company s assets of $143,668 consisted of $56,609 associated with U.S. plans and $87,059 associated with international plans. The weighted average discount rate used for the Company s domestic plans was approximately

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5.0% and approximately 4.9% for its international plans. The weighted average expected return on plan assets used for the Company s domestic plans was approximately 7.6% and approximately 5.4% for its international plans.

At September 30, 2010, the Company s total pension and deferred compensation benefit obligation of $234,807 consisted of $81,956 associated with U.S. plans and $152,851 associated with international plans. The fair value of the Company s assets of $140,072 consisted of $58,790 associated with U.S. plans and $81,282 associated with international plans. The weighted average discount rate used for the Company s domestic plans was approximately 5% and approximately 4.8% for its international plans. The weighted average expected return on plan assets used for the Company s domestic plans was approximately 7.5% and approximately 5.4% for its international plans.

	Pension and Deferred Compensation Benefits				Other Benefits			
	Successor			Predecessor	Successor			Predecessor
	2011	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009	2011	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Components of net periodic benefit cost:								
Service cost	$ 2,689	$ 2,479	$ 211	$ 2,068	$ 11	$ 9	$ 1	$ 8
Interest cost	11,239	8,515	612	6,517	27	26	2	24
Expected return on assets	(8,835)	(6,063)	(417)	(4,253)				
Amortization of prior service cost		535		202				
Amortization of transition obligation		207						
Curtailment loss				300				
Recognized net actuarial (gain) loss	8	613		37	(52)	(58)	(5)	(53)
Net periodic cost (benefit)	$ 5,101	$ 6,286	$ 406	$ 4,871	$ (14)	$ (23)	$ (2)	$ (21)

The discount rate is used to calculate the projected benefit obligation. The discount rate used is based on the rate of return on government bonds as well as current market conditions of the respective countries where such plans are established.

Below is a summary allocation of all pension plan assets as of the measurement date.

	Weighted Average Allocation		
	Target	Actual	
	2011	2011	2010
Asset Category			
Equity securities	0-60%	47%	46%
Fixed income securities	0-40%	21%	23%
Other	0-100%	32%	31%
	100%	100%	100%

The weighted average expected long-term rate of return on total assets is 6.2%.

The Company has established formal investment policies for the assets associated with these plans. Policy objectives include maximizing long-term return at acceptable risk levels, diversifying among asset classes, if appropriate, and among investment managers, as well as establishing relevant risk parameters within each asset class. Specific asset class targets are based on the results of periodic asset liability studies. The investment policies permit variances from the targets within certain parameters. The weighted average expected long-term rate of return is based on a Fiscal 2011 review of such rates. The plan assets currently do not include holdings of common stock of HGI or its subsidiaries.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s fixed income securities portfolio is invested primarily in commingled funds and managed for overall return expectations rather than matching duration against plan liabilities; therefore, debt maturities are not significant to the plan performance.

The Company s other portfolio consists of all pension assets, primarily insurance contracts, in the United Kingdom, Germany and the Netherlands.

The Company s expected future pension benefit payments for Fiscal 2012 through its fiscal year 2021 are as follows:

2012	$ 8,944
2013	9,245
2014	9,515
2015	9,889
2016	10,478
2017 to 2021	59,100

The following table sets forth the fair value of the Company s pension plan assets:

	September 30, 2011(a)	September 30, 2010(a)
U.S. defined benefit plan assets:		
Mutual funds equity	$ 16,516	$
Common collective trusts equity	21,024	36,723
Common collective trusts fixed income	18,402	22,067
Other	667	
Total U.S. defined benefit plan assets	56,609	58,790
International defined benefit plan assets:		
Common collective trusts equity	29,532	28,090
Common collective trusts fixed income	11,467	9,725
Insurance contracts general fund	37,987	40,347
Other	8,073	3,120
Total International defined benefit plan assets	87,059	81,282
Total defined benefit plan assets	$ 143,668	$ 140,072

(a) The fair value measurements of the Company s defined benefit plan assets are based on unadjusted quoted prices for identical assets and liabilities in active markets (Level 1) for mutual funds and observable market price inputs

(Level 2) for common collective trusts and other investments. Each collective trust s valuation is based on its calculation of net asset value per share reflecting the fair value of its underlying investments. Since each of these collective trusts allows redemptions at net asset value per share at the measurement date, its valuation is categorized as a Level 2 fair value measurement. The fair values of insurance contracts and other investments are also based on observable market price inputs (Level 2).

Defined Contribution Plans

Spectrum Brands sponsors a defined contribution pension plan for its domestic salaried employees, which allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. Spectrum Brands also sponsors defined contribution pension plans for employees of certain foreign subsidiaries. FGL sponsors a defined contribution plan in which eligible participants may defer a fixed amount or a percentage of

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

their eligible compensation, subject to limitations and FGL makes a discretionary matching contribution of up to 5% of eligible compensation. FGL has also established a nonqualified defined contribution plan for independent agents. FGL makes contributions to the plan based on both FGL s and the agent s performance. Contributions are discretionary and evaluated annually. HGI also sponsors a defined contribution plan for its corporate employees in which eligible participants may defer a fixed amount or a percentage of their eligible compensation, subject to limitations. HGI makes a discretionary matching contribution of up to 4% of eligible compensation. Aggregate contributions charged to operations for the defined contribution plans, including discretionary amounts, for Fiscal 2011, Fiscal 2010 and the period from August 31, 2009 through September 30, 2009 were $5,346, $3,471 and $44, respectively. Predecessor contributions charged to operations, including discretionary amounts, for the period from October 1, 2008 through August 30, 2009 were $2,623.

(16) Stock Compensation

The Company recognized consolidated stock compensation expense as follows:

	Successor			Predecessor
	Year Ended September 30, 2011	Year Ended September 30, 2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Stock compensation expense	$ 30,505	$ 16,710	$	$ 2,636
Related tax benefit	10,636	5,837		994
Noncontrolling interest	9,057	4,932		
Net	$ 10,812	$ 5,941	$	$ 1,642

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

HGI

On December 5, 1996, HGI s stockholders approved a long-term incentive plan (the 1996 HGI Plan) that permitted the grant of options to purchase up to 8,000 shares of common stock to key employees of the Company. These awards were granted at prices equivalent to the market value of the common stock on the date of grant. These options vest ratably over three years beginning on the first anniversary and expired on the tenth anniversary of the grant. At September 30, 2011, stock options covering a total of 1,797 shares had been exercised and 135 options to purchase common stock are outstanding, with a weighted average exercise price of $6.97.

In March 2002, the Company issued specific stock option grants of 48 options to each of the non-employee directors of the Company. These grants were non-qualified options that vested ratably over three years beginning on the first

anniversary and expire on the tenth anniversary of the grant. At September 30, 2011, there were 8 options to purchase common stock outstanding with an exercise price of $3.33.

On September 15, 2011, the Company s stockholders approved the 2011 Omnibus Award Plan (the 2011 HGI Plan). The 2011 HGI Plan provides for the issuance of stock options or stock appreciation rights (SARs) for up to 17,000 shares of common stock. The 2011 HGI Plan prohibits granting stock options with exercise prices and SARs with grant prices lower than the fair market value of the common stock on the date of grant, except in connection with the issuance or assumption of awards in connection with certain mergers, consolidations, acquisitions of property or stock or reorganizations. Under the 2011 HGI Plan, no new awards will be granted under the 1996 HGI Plan and any shares of common stock available for issuance under the 1996 HGI Plan that are not subject to outstanding awards will no longer be available for issuance. As of September 30, 2011, 17,000 shares are available for issuance under this plan.

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

HGI recognized $116 and $34 of stock compensation expense during Fiscal 2011 and the period from June 16, 2010 through September 30, 2010, respectively. A summary of the Company s stock options outstanding as of September 30, 2010 and 2011, and related activity during Fiscal 2011, is as follows:

	Units/ Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term		Aggregate Intrinsic Value (In thousands)
Outstanding at September 30, 2010	509	$	5.62			
Granted		$				
Exercised	(150)	$	2.78			
Forfeitured	(216)	$	6.83			
Outstanding at September 30, 2011	143	$	6.77	7.8 years	$	14
Exercisable at September 30, 2011	53	$	6,42	7.1 years	$	14
Vested or expected to vest at September 30, 2011	143	$	6.77	7.8 years	$	14

During Fiscal 2010, prior to the June 16, 2010 inclusion of HGI s results herein, stock options for 10,000 and 125,000 shares were granted by HGI with grant date fair values of $2.35 and $2.63 per share, respectively. The following assumptions were used in Fiscal 2010 in the determination of these grant date fair values using the Black-Scholes option pricing model:

	2010
Risk-free interest rate	2.6%
Assumed dividend yield	
Expected option term	6 years
Volatility	32.0%

As of September 30, 2011, there was approximately $147 of total unrecognized compensation cost related to unvested share-based compensation arrangements. That cost is expected to be recognized over a weighted average period of 1.2 years.

Spectrum Brands

On the Effective Date all of the existing common stock of the Predecessor was extinguished and deemed cancelled. Spectrum Brands had no stock options, SARs, restricted stock or other stock-based awards outstanding as of September 30, 2009.

In September 2009, SBI s board of directors adopted the 2009 Spectrum Brands Inc. Incentive Plan (the 2009 Plan). In conjunction with the SB/RH Merger the 2009 Plan was assumed by Spectrum Brands. Prior to October 21, 2010, up to 3,333 shares of common stock, net of forfeitures and cancellations, could have been issued under the 2009 Plan.

In conjunction with the SB/RH Merger, Spectrum Brands adopted the Spectrum Brands Holdings, Inc. 2007 Omnibus Equity Award Plan (formerly known as the Russell Hobbs Inc. 2007 Omnibus Equity Award Plan, as amended on June 24, 2008) (the 2007 RH Plan). Prior to October 21, 2010, up to 600 shares of common stock, net of forfeitures and cancellations, could have been issued under the RH Plan.

On October 21, 2010, Spectrum Brands board of directors adopted the Spectrum Brands Holdings, Inc. 2011 Omnibus Equity Award Plan (2011 Plan), which was approved by Spectrum Brands stockholders on March 1, 2011. Up to 4,626 shares of common stock of Spectrum Brands, net of cancellations, may be issued under the 2011 Plan.

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Total stock compensation expense associated with restricted stock awards recognized by Spectrum Brands during Fiscal 2011 was $30,389 or $10,696, net of taxes and non-controlling interest. Total stock compensation expense associated with restricted stock awards recognized by Spectrum Brands during Fiscal 2010 was $16,676 or $5,907, net of taxes non-controlling interest. Spectrum Brands recorded no stock compensation expense during the period from August 31, 2009 through September 30, 2009. Total stock compensation expense associated with both stock options and restricted stock awards recognized by the Predecessor during the period from October 1, 2008 through August 30, 2009 was $2,636 or $1,642, net of taxes.

Spectrum Brands granted approximately 1,674 shares of restricted stock during Fiscal 2011. Of these grants, 93 restricted stock units are time-based and vest over a period ranging from one year to three years. The remaining 1,581 shares are restricted stock units that are both performance and time based and vest as follows: (i) 699 stock units vest over a one year performance based period followed by a one year time-based period; (ii) 882 stock units vest over a two year performance based period followed by a one year time-based period. The total market value of the restricted shares on the date of the grant was approximately $48,530.

Spectrum Brands granted approximately 939 shares of restricted stock during Fiscal 2010. Of these grants, 271 restricted stock units were granted in conjunction with the SB/RH Merger and are time-based and vest over a one year period. The remaining 668 shares are restricted stock grants that are time based and vest as follows: (i) 18 shares vest over a one year period; (ii) 611 shares vest over a two year period; and (iii) 39 shares vest over a three year period. The total market value of the restricted shares on the date of the grant was approximately $23,299.

The fair value of restricted stock is determined based on the market price of Spectrum Brands shares on the grant date. A summary of Spectrum Brands non-vested restricted stock awards and restricted stock units as of September 30, 2010 and 2011, and related activity during Fiscal 2011, is as follows:

Restricted Stock Awards	**Units/ Shares**	**Weighted Average Grant Date Fair Value**	**Fair Value at Grant Date**
Restricted Spectrum Brands stock awards at September 30, 2010	446	$ 23.56	$ 10,508
Vested	(323)	$ 23.32	(7,531)
Restricted Spectrum Brands stock awards at September 30, 2011	123	$ 24.20	$ 2,977

Restricted Stock Units	**Units/ Shares**	**Weighted Average Grant Date Fair Value**	**Fair Value at Grant Date**
Restricted Spectrum Brands stock units at September 30, 2010	249	$ 28.22	$ 7,028
Granted	1,674	$ 29.00	48,530

Forfeited	(43)	$	29.46		(1,267)
Vested	(235)	$	28.23		(6,635)
Restricted Spectrum Brands stock units at September 30, 2011	1,645	$	28.97	$	47,656

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) Income Taxes

Income tax expense (benefit) was calculated based upon the following components of income (loss) from continuing operations before income tax:

	Successor			Predecessor
	Year Ended September 30, 2011	Year Ended September 30, 2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Pretax income (loss):				
United States	$ (82,079)	$ (238,179)	$ (28,043)	$ 936,379
Outside the United States	132,749	105,867	8,043	186,975
Total pretax income (loss)	$ 50,670	$ (132,312)	$ (20,000)	$ 1,123,354

The components of income tax expense were as follows:

	Successor			Predecessor
	Year Ended September 30, 2011	Year Ended September 30, 2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Current:				
Federal	$ (875)	$	$	$
Foreign	32,649	44,481	3,111	24,159
State	2,336	2,913	282	(364)
Total current	34,110	47,394	3,393	23,795
Deferred:				
Federal	(20,622)	22,119	49,790	(1,599)
Foreign	28,054	(6,514)	(1,266)	1,581
State	9,013	196	(724)	(1,166)
Total deferred	16,445	15,801	47,800	(1,184)

Income tax expense	$ 50,555	$ 63,195	$ 51,193	$ 22,611

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The differences between income taxes expected at the U.S. Federal statutory income tax rate of 35% and reported income tax expense are summarized as follows:

	Successor			Predecessor
	2011	**2010**	**Period from August 31, 2009 through September 30, 2009**	**Period from October 1, 2008 through August 30, 2009**
Expected income tax expense (benefit) at Federal statutory rate	$ 17,735	$ (46,309)	$ (7,000)	$ 393,174
State and local income taxes, net of Federal income tax benefit	1,235	(4,975)	(773)	(7,078)
Bargain purchase gain	(52,877)			
Valuation allowance for deferred tax assets	77,027	92,673	1,474	(52,060)
Residual tax on foreign earnings	14,357	9,312	56,939	285
Foreign rate differential	(12,756)	(10,059)	(718)	(8,512)
Permanent items	10,657	2,584	(1,193)	11,458
Preferred stock embedded derivative	(9,486)			
Deferred tax correction of immaterial prior period error	4,873	5,900		
Capitalized transaction costs	2,800			
Inflationary adjustments	(1,472)	3,409	224	(185)
Unrecognized tax benefits	(2,793)	3,234	1,864	310
Other	1,255	(1,252)	376	39
Reorganization items		8,678		
Fresh start reporting valuation adjustment				(380,784)
Gain on settlement of liabilities subject to compromise				50,383
Professional fees incurred in connection with bankruptcy filing				15,581
Reported income tax expense	$ 50,555	$ 63,195	$ 51,193	$ 22,611
Effective tax rate	99.8%	(47.8)%	(256.0)%	2.0%

For the year ended September 30, 2011, the Company s effective tax rate of 99.8% was negatively impacted by the net establishment of valuation allowances against losses in the United States and some foreign jurisdictions. In addition, no tax benefits were recognized on the Company s indefinite lived intangibles, which are amortized for tax purposes. The Company s effective tax rate was positively impacted by the recognition of a bargain purchase gain from the FGL Acquisition, for which no income tax provision was required. In addition, permanently reinvested income in the foreign jurisdictions in which the Company operates is subject to lower tax rates than the U.S Federal statutory

income tax rate.

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the components of deferred income tax assets and liabilities:

	September 30, 2011	September 30, 2010
Current deferred tax assets:		
Employee benefits	$ 14,188	$ 21,770
Restructuring and purchase accounting	10,682	6,486
Inventories and receivables	21,521	13,484
Marketing and promotional accruals	8,911	5,783
Capitalized transaction costs	292	
Unrealized losses on mark-to-market securities	9,574	
Net operating loss and credit carryforwards	2,116	
Other	12,855	24,658
Valuation allowance	(37,523)	(30,248)
Total current deferred tax assets	42,616	41,933
Current deferred tax liabilities:		
Inventories and receivables	(5,015)	(1,947)
Tax on unremitted foreign earnings	(2,118)	
Other	(5,969)	(3,885)
Total current deferred tax liabilities	(13,102)	(5,832)
Net current deferred tax assets, included in Prepaid expenses and other current assets	$ 29,514	$ 36,101
Noncurrent deferred tax assets:		
Employee benefits	$ 32,369	$ 19,600
Restructuring and purchase accounting	2,269	20,541
Marketing and promotional accruals	587	1,311
Net operating loss, credit and capital loss carryforwards	1,026,610	518,762
Prepaid royalty	7,346	9,708
Properties	5,240	3,207
Capitalized transaction costs	4,648	
Unrealized losses on mark-to-market securities	18,574	4,202
Other	59,232	15,007
Deferred acquisition costs	74,175	
Insurance reserves and claim related adjustments	408,214	
Valuation allowance	(764,710)	(309,924)
Total noncurrent deferred tax assets	874,554	282,414

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	September 30, 2011	September 30, 2010
Noncurrent deferred tax liabilities:		
Properties	(16,593)	(13,862)
Unrealized gains	(11,619)	
Intangibles	(571,454)	(544,478)
Value of business acquired	(148,876)	
Investments	(246,632)	
Other	(6,418)	(1,917)
Total noncurrent deferred tax liabilities	(1,001,592)	(560,257)
Net noncurrent deferred tax liabilities, included in Deferred tax assets (Insurance) and Deferred tax liabilities (Consumer Products and Other)	$ (127,038)	$ (277,843)
Net current and noncurrent deferred tax liabilities	$ (97,524)	$ (241,742)

The Company evaluates the realizability of its deferred tax assets on a quarterly basis. A valuation allowance is established when management concludes that all or a portion of deferred tax assets are not more-likely-than-not realizable. As a result of cumulative losses incurred over the past three years, the Company concluded that certain of its deferred tax assets were not more-likely-than-not realizable. As a result, a valuation allowance was recorded. The realization of the Company s deferred tax assets is primarily dependent on future earnings. In the future, the net amount of the Company s deferred tax assets could be further reduced by additional valuation allowances if actual future taxable income is lower than anticipated. The deferred tax assets for which a valuation allowance was recorded resulted from U.S. and foreign tax loss carryforwards, tax credit carryforwards and U.S. capital loss carryforwards.

HGI

As a result of HGI s cumulative losses over the past three years, management concluded at September 30, 2011, that a valuation allowance was required for its entire net deferred tax asset balance. HGI s valuation allowance at September 30, 2011, totaled $53,034. This resulted from the Company s conclusion that tax benefits on its pretax losses are not more-likely-than-not realizable. HGI has approximately $63,328 of U.S. Federal net operating loss (NOL) carryforwards which, if unused, will expire in years 2029 through 2031. The Company also concluded that a valuation allowance was required for HGI s entire net deferred tax asset balance at September 30, 2010, in the amount of $9,236.

Spectrum Brands

At September 30, 2011, Spectrum Brands has U.S. Federal and state and local NOL carryforwards of $1,163,012 and $1,197,367, respectively. If unused, they will expire through year 2032. Spectrum Brands has foreign loss carryforwards totaling $140,062 which will expire beginning in 2012. Certain of the foreign net operating losses have indefinite carryforward periods. Spectrum Brands is subject to an annual limitation on use of its NOL carryforwards

that arose prior to its emergence from bankruptcy. Spectrum Brands has had multiple changes of ownership, as defined under IRC Section 382, that subject the utilization of Spectrum Brands U.S. Federal and state and local NOL carryforwards and other tax attributes to certain limitations. Due to these limitations, Spectrum Brands estimates that $302,465 of its U.S. Federal NOL carryforwards and $385,159 of its state and local NOL carryforwards will expire unused. In addition, separate return year limitations apply to limit Spectrum Brands utilization of U.S. Federal and state and local NOL carryforwards acquired from Russell Hobbs. As a result, such carryforwards, which total $326,747, may only be used to offset future income of the Russell Hobbs subgroup.

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Spectrum Brands estimates that $35,354 of its total foreign loss carryforwards will expire unused. The Company has provided a full valuation allowance against the deferred tax assets recorded for these losses. The Predecessor Company recognized income tax expense of approximately $124,054 related to gains on the settlement of liabilities subject to compromise and the modification of the senior secured credit facility in the period from October 1, 2008 through August 30, 2009. Spectrum Brands has, in accordance with IRC Section 108, reduced its NOL carryforwards for cancellation of indebtedness income that arose from its emergence from Chapter 11 of the Bankruptcy Code, under IRC Section 382(1)(6). As of September 30, 2011 and September 30, 2010, Spectrum Brands valuation allowances totaled approximately $373,893 and $330,936, respectively. These valuation allowances were recorded on: (i) U.S. net deferred tax assets totaling $338,538 and $299,524, respectively; and (ii) foreign net deferred tax assets totaling $35,354 and $31,412, respectively. The increase in Spectrum Brands valuation allowance during the year ended September 30, 2011 totaled $42,957, of which $39,014 relates to U.S. net deferred tax assets, and $3,942 to foreign net deferred tax assets. In addition, during the year ended September 30, 2011, Spectrum Brands concluded that its deferred tax assets recorded for Brazil NOL carryforwards are not more-likely-than not realizable. As a result, the Company recorded $25,877 of valuation allowance, increasing foreign deferred tax expense.

For the years ending September 30, 2011 and 2010, Spectrum Brands recorded residual U.S. and foreign income and withholding taxes on approximately $39,391 and $26,600 of foreign earnings, causing an increase to income tax expense of $771 and $9,312, respectively. These income tax expense accruals were necessary primarily as a result of non-cash deemed distributions under U.S. tax law. During the period from August 31, 2009 through September 30, 2009, the Successor recorded residual U.S. and foreign income and withholding taxes on $165,937 of actual and deemed distributions of foreign earnings, resulting in an increase to income tax expense of approximately $58,295. These distributions reduced the Company s U.S. tax loss for Fiscal 2009. Remaining undistributed earnings of Spectrum Brands foreign operations, which total approximately $451,796 and $302,447 at September 30, 2011 and September 30, 2010, respectively, are permanently reinvested. Accordingly, no residual income taxes have been provided on these earnings at September 30, 2011 and September 30, 2010, respectively. The Company is not able to reasonably estimate the incremental U.S. and foreign income and withholding taxes on its permanently reinvested foreign earnings. Due to the Spectrum Brands plans to voluntarily pay down its U.S. debt, repurchase shares, fund U.S. acquisitions and its ongoing U.S. operational cash flow requirements, Spectrum Brands does not plan to permanently reinvest its future foreign subsidiary earnings (i.e., earnings after September 30, 2011) except to the extent: (i) foreign earnings repatriation is precluded by local law; or (ii) such earnings are currently taxable as deemed dividends under U.S. tax law.

FGL

At September 30, 2011, FGL s deferred tax assets were primarily the result of U.S. NOL, capital loss and tax credit carryforwards and insurance reserves. Its net deferred tax asset position at September 30, 2011, before consideration of its recorded valuation allowance, totaled $586,947. A valuation allowance of $375,306 was recorded against its gross deferred tax asset balance at September 30, 2011. FGL s net deferred tax asset position at September 30, 2011 is $211,641, after taking into account the valuation allowance. For the year ended September 30, 2011, $85,709 of deferred tax liabilities were established and recorded through AOCI as a result of unrealized gains on securities that were marked to market. For the year ended September 30, 2011, the Company reversed $30,064 of valuation allowance based on management s reassessment of the amount of its deferred tax assets that are more-likely-than-not realizable.

At September 30, 2011, FGL has NOL carryforwards of $428,005 which, if unused, will expire in years 2023 through 2031. FGL has capital loss carryforwards totaling $717,267 at September 30, 2011, which if unused, will expire in years 2012 through 2016. In addition, FGL has low income housing tax credit carryforwards totaling $68,099, which if unused, will expire in years 2017 through 2031. Alternative minimum tax credits totaling $6,304 may be carried forward indefinitely.

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Certain tax attributes are subject to an annual limitation as a result of the acquisition of FGL by the Company, which constitutes a change of ownership, as defined under IRC Section 382.

Uncertain Tax Positions

The total amount of unrecognized tax benefits (UTBs) at September 30, 2011, and September 30, 2010, are $9,013 and $13,174, respectively. If recognized in the future, the entire amount of UTBs would impact the effective tax rate. The Company records interest and penalties related to uncertain tax positions in income tax expense. At September 30, 2011 and September 30, 2010, the Company s accrued balances of interest and penalties on uncertain tax positions totaled $4,682 and $5,860, respectively. For Fiscal 2011, interest and penalties decreased income tax expense by $1,422. For Fiscal 2010, interest and penalties increased income tax expense by $1,527. Interest and penalties recorded by the Predecessor Company for the period August 31, 2009 through September 30, 2009 were not material. In connection with the SB/RH Merger, Spectrum Brands recorded reserves for additional UTBs of approximately $3,299 as part of purchase accounting.

At September 30, 2011, filed income tax returns for certain of the Company s legal entities in various jurisdictions are undergoing income tax audits. The Company cannot predict the ultimate outcome of these examinations. However, it is reasonably possible that during the next 12 months some portion of previously unrecognized tax benefits could be recognized.

The Company believes its income tax reserves for uncertain tax positions are adequate, consistent with the principles of ASC Topic 740. The Company regularly assesses the likelihood of additional tax assessments by jurisdiction and, if necessary, adjusts its tax reserves based on new information or developments.

The following table summarizes changes to the Company s UTB reserves, excluding related interest and penalties:

Unrecognized tax benefits at September 30, 2008 (Predecessor)	$ 6,755
Gross increase tax positions in prior period	26
Gross decrease tax positions in prior period	(11)
Gross increase tax positions in current period	1,673
Lapse of statutes of limitations	(807)
Unrecognized tax benefits at August 30, 2009 (Predecessor)	7,636
Gross decrease tax positions in prior period	(15)
Gross increase tax positions in current period	174
Lapse of statutes of limitations	(30)
Unrecognized tax benefits at September 30, 2009 (Successor)	7,765
Russell Hobbs acquired unrecognized tax benefits	3,251
HGI unrecognized tax benefits as of June 16, 2010	732
Gross decrease tax positions in prior period	(904)
Gross increase tax positions in current period	3,390
Lapse of statutes of limitations	(1,060)

Unrecognized tax benefits at September 30, 2010 (Successor)	13,174
Gross increase tax positions in prior period	1,658
Gross decrease tax positions in prior period	(823)
Gross increase tax positions in current period	596
Settlements	(1,850)
Lapse of statutes of limitations	(3,742)
Unrecognized tax benefits at September 30, 2011 (Successor)	$ 9,013

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

HGI files U.S. Federal consolidated and state and local combined and separate income tax returns. HGI s consolidated and combined returns do not include Spectrum Brands or FGL (life insurance group), each of which files their own consolidated Federal, and combined and separate state and local income tax returns. HGI s U.S. Federal income tax returns for years prior to 2006 are no longer subject to audit by the taxing authorities. With limited exception, HGI s state and local income tax returns are no longer subject audit for years prior to 2007.

Spectrum Brands files U.S. Federal consolidated and state and local combined and separate income tax returns as well as foreign income tax returns in various jurisdictions. They are subject to ongoing examination by various taxing authorities. Spectrum Brand s major taxing jurisdictions are the United States, United Kingdom and Germany.

U.S. Federal income tax returns of Spectrum Brands and Russell Hobbs are no longer subject to audit for years prior to 2007. However, Federal NOL carryforwards from their fiscal years ended September 30, 2007 and June 30, 2008, respectively, will continue to be subject to Internal Revenue Service examination until the Statute of Limitations expires for the years in which these NOL carryforwards are ultimately utilized.

U.S. Federal income tax returns of FGL for years prior to 2007 are no longer subject to examination by the taxing authorities. FGL is no longer subject to state and local income tax audits for years prior to 2007. However, Federal NOL carryforwards from tax years ended June 30, 2006 and December 31, 2006, respectively, continue to be subject to Internal Revenue Service examination until the Statute of Limitations expires for the years in which these NOL carryforwards are ultimately utilized.

(18) Earnings Per Share

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

The following table sets forth the computation of basic and diluted EPS:

	Successor			Predecessor
	Year Ended September 30, 2011	Year Ended September 30, 2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Income (loss) attributable to common and participating preferred stockholders:				
Income (loss) from continuing operations	$ 14,962	$ (149,134)	$ (71,193)	$ 1,100,743
		(2,735)	408	(86,802)

(Loss) income from discontinued operations				
Net income (loss)	$ 14,962	$ (151,869)	$ (70,785)	$ 1,013,941
Participating shares at end of period:				
Common shares outstanding	139,346	139,197	129,600	52,738
Preferred shares (as-converted basis)	60,989			
Total	200,335	139,197	129,600	52,738
Percentage of income (loss) allocated to:				
Common shares	69.6%	100%	100%	100%
Preferred shares	30.4%			

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Successor			Predecessor
	Year Ended September 30, 2011	Year Ended September 30, 2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Income (loss) attributable to common shares basic:				
Income (loss) from continuing operations	$ 10,407	$ (149,134)	$ (71,193)	$ 1,100,743
(Loss) income from discontinued operations		(2,735)	408	(86,802)
Net income (loss)	$ 10,407	$ (151,869)	$ (70,785)	$ 1,013,941
Dilutive adjustments to income (loss) attributable to common shares from assumed conversion of preferred shares, net of tax:				
Income allocated to preferred shares in basic calculation	$ 4,555	$	$	$
Reversal of preferred stock dividends and accretion	19,833			
Reversal of income related to fair value of preferred stock conversion feature	(27,910)			
Net adjustment	$ (3,522)	$	$	$
Income (loss) attributable to common shares diluted:				
Income (loss) from continuing operations	$ 6,885	$ (149,134)	$ (71,193)	$ 1,100,743
(Loss) income from discontinued operations		(2,735)	408	(86,802)
Net income (loss)	$ 6,885	$ (151,869)	$ (70,785)	$ 1,013,941
Weighted-average common shares outstanding basic	139,233	132,399	129,600	51,306
Dilutive effect of preferred stock	19,064			
Dilutive effect of stock options	87			
Weighted-average shares outstanding diluted	158,384	132,399	129,600	51,306
Basic income (loss) per common share attributable to controlling interest:				

Continuing operations	$	0.07	$	(1.13)	$	(0.55)	$	21.45
Discontinued operations				(0.02)				(1.69)
Net income (loss)	$	0.07	$	(1.15)	$	(0.55)	$	19.76
Diluted income (loss) per common share attributable to controlling interest:								
Continuing operations	$	0.04	$	(1.13)	$	(0.55)	$	21.45
Discontinued operations				(0.02)				(1.69)
Net income (loss)	$	0.04	$	(1.15)	$	(0.55)	$	19.76

The number of common shares outstanding used in calculating the weighted average thereof for the Successor reflects: (i) for periods prior to the June 16, 2010 date of the SB/RH Merger, the number of SBI common shares outstanding multiplied by the 1:1 Spectrum Brands share exchange ratio used in the SB/RH Merger and the 4.32 HGI share exchange ratio used in the Spectrum Brands Acquisition, (ii) for the period from June 16, 2010 to the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

January 7, 2011 date of the Spectrum Brands Acquisition, the number of HGI common shares outstanding plus the 119,910 HGI common shares subsequently issued in connection with the Spectrum Brands Acquisition and (iii) for the period subsequent to and including January 7, 2011, the actual number of HGI common shares outstanding.

The Predecessor common stock was cancelled as a result of SBI s emergence from Chapter 11 of the Bankruptcy Code on August 28, 2009. The Successor s common stock began trading on September 2, 2009. As such, the income (loss) per share information for the Predecessor cannot be retrospectively adjusted and is not meaningful to stockholders of HGI s common shares, or to potential investors in such common shares.

(19) Commitments and Contingencies

Lease Commitments

The Company s minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease. Future minimum rental commitments under non-cancelable operating leases, principally pertaining to land, buildings and equipment, principally relating to Spectrum Brands, are as follows:

Fiscal Year		Future Minimum Rental Commitments
2012	$	32,698
2013		25,331
2014		19,438
2015		13,314
2016		11,793
Thereafter		34,265
Total minimum lease payments	$	136,839

All of the leases expire between October 2011 and January 2030. The Company s total rent expense was $41,825, $30,273 and $2,351 during Fiscal 2011, Fiscal 2010 and the period from August 31, 2009 through September 30, 2009, respectively. The Predecessor s total rent expense was $22,132 for the period from October 1, 2008 through August 30, 2009.

Legal and Environmental Matters

HGI

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

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

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Spectrum Brands

Spectrum Brands has provided approximately $7,302 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 for will not have a material adverse effect on the financial condition, results of operations or cash flows of Spectrum Brands.

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

FGL

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

Regulatory Matters

FGL

FGL is assessed amounts by the state guaranty funds to cover losses to policyholders of insolvent or rehabilitated insurance companies. Those mandatory assessments may be partially recovered through a reduction in future premium taxes in certain states. At September 30, 2011, FGL has accrued $6,995 for guaranty fund assessments which is expected to be offset by estimated future premium tax deductions of $4,970.

Guarantees

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

The First Amended and Restated Stock Purchase Agreement, dated February 17, 2011 (the F&G Stock Purchase Agreement) between HFG and OMGUK includes a Guarantee and Pledge Agreement which creates certain obligations for FGL as a grantor and also grants a security interest to OMGUK of FGL s equity interest in FGL Insurance in the event that HFG fails to perform in accordance with the terms of the F&G Stock Purchase Agreement. The Company is not aware of any events or transactions that would result in non-compliance with the Guarantee and

Pledge Agreement.

(20) Reinsurance

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

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

adequate risk transfer. Otherwise, the deposit method of accounting is followed. FGL also assumes policy risks from other insurance companies.

The effect of reinsurance on premiums earned and benefits incurred for the period from April 6, 2011 to September 30, 2011 was as follows:

	Net Premiums Earned	Net Benefits Incurred
Direct	$ 157,772	$ 392,073
Assumed	22,858	19,571
Ceded	(141,628)	(164,012)
Net	$ 39,002	$ 247,632

Amounts payable or recoverable for reinsurance on paid and unpaid claims are not subject to periodic or maximum limits. During the period April 6, 2011 to September 30, 2011, FGL did not write off any reinsurance balances nor did it commute any ceded reinsurance other than the recapture discussed below under *Reserve Facility.*

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

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

FGL has the following significant reinsurance agreements as of September 30, 2011:

Reserve Facility

Pursuant to the F&G Stock Purchase Agreement, on April 7, 2011, FGL Insurance recaptured all of the life insurance business ceded to Old Mutual Reassurance (Ireland) Ltd. (OM Re), an affiliated company of OMGUK, FGL s former parent. OM Re transferred assets with a fair value of $653,684 to FGL Insurance in settlement of all of OM Re s obligations under these reinsurance agreements. The fair value of the transferred assets, which was based on the economic reserves, was approved by the Maryland Insurance Administration. No gain or loss was recognized in connection with the recapture. The fair value of the assets transferred is reflected in the FGL acquisition purchase price allocation (see Note 22).

On April 7, 2011 FGL Insurance ceded to Raven Re, on a coinsurance basis, a significant portion of the business recaptured from OM Re. Raven Re was capitalized by a $250 capital contribution from FGL Insurance and a surplus note (i.e., subordinated debt) issued to OMGUK in the principal amount of $95,000 (see Note 12 for the terms of such note). The proceeds from the surplus note issuance and the surplus note are reflected in the FGL acquisition purchase price allocation. Raven Re financed $535,000 of statutory reserves for this business with a letter of credit facility provided by an unaffiliated financial institution and guaranteed by OMGUK and HFG.

On April 7, 2011, FGL Insurance entered into a reimbursement agreement with Nomura Bank International plc (Nomura) to establish a reserve facility and Nomura charged an upfront structuring fee (the Structuring Fee). The Structuring Fee was in the amount of $13,750 and is related to the retrocession of the life business recaptured from OM Re and related credit facility. The Structuring Fee was deferred and was fully amortized as of September 30, 2011 as a result of the termination of the reserve facility in connection with FGL Insurance accelerating the effective date of the amended and restated Raven Springing Amendment which is described in the Wilton Agreement discussion below.

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Commissioners Annuity Reserve Valuation Method Facility (CARVM)

Effective September 30, 2008, FGL Insurance entered into a yearly renewable term quota share reinsurance agreement with OM Re, whereby OM Re assumes a portion of the risk that policyholders exercise the waiver of surrender charge features on certain deferred annuity policies. This agreement did not meet risk transfer requirements to qualify as reinsurance under US GAAP. Under the terms of the agreement, the Company expensed net fees of $1,809 for the period from April 6, 2011 to September 30, 2011. Although this agreement does not provide reinsurance for reserves on a US GAAP basis, it does provide for reinsurance of reserves on a statutory basis. The statutory reserves are secured by a letter of credit with Old Mutual plc of London, England (OM), OMGUK s parent.

Wilton Agreement

On January 26, 2011, HFG entered into a commitment agreement (the Commitment Agreement) with Wilton Re U.S. Holdings, Inc. (Wilton) committing Wilton Re, a wholly-owned subsidiary of Wilton and a Minnesota insurance company to enter into certain coinsurance agreements with FGL Insurance. On April 8, 2011, FGL Insurance ceded significantly all of the remaining life insurance business that it had retained to Wilton Re under the first of the two amendments with Wilton. FGL Insurance transferred assets with a fair value of $535,826, net of ceding commission, to Wilton Re. FGL Insurance considered the effects of the first amendment in the purchase price allocation.

Effective April 26, 2011, HFG elected the second amendment (the Raven Springing Amendment) that commits FGL Insurance to cede to Wilton Re all of the business currently reinsured with Raven Re (the Raven Block) on or before December 31, 2012, subject to regulatory approval. The Raven Springing Amendment was intended to mitigate the risk associated with HFG s obligation under the F&G Stock Purchase Agreement to replace the Raven Re reserve facility by December 31, 2012. On September 9, 2011, FGL Insurance and Wilton Re executed an amended and restated Raven Springing Amendment whereby the recapture of the business ceded to Raven Re by FGL Insurance and the re-cession to Wilton Re closed on October 17, 2011 with an effective date of October 1, 2011. See Note 29 for additional details regarding the closing of the Raven Springing Amendment.

Pursuant to the terms of the Raven Springing Amendment, the amount payable to Wilton at the closing of such amendment was adjusted to reflect the economic performance for the Raven Block from January 1, 2011 until the effective time of the closing of the Raven Springing Amendment. The estimated economic performance for the period from January 1, 2011 to April 6, 2011 was considered in the opening balance sheet and purchase price allocation. However, Wilton Re had no liability with respect to the Raven Block prior to the effective date of the Raven Springing Amendment. The Company recorded a charge of $10,426 for the estimated economic performance of the business for the period from April 6, 2011 to September 30, 2011.

FGL Insurance has a significant concentration of reinsurance with Wilton Re that could have a material impact on FGL Insurance s financial position. As of September 30, 2011, the net amount recoverable from Wilton Re was $609,340. FGL Insurance monitors both the financial condition of individual reinsurers and risk concentration arising from similar geographic regions, activities and economic characteristics of reinsurers to reduce the risk of default by such reinsurers.

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Additional information regarding the Company s reinsurance agreements as of and for the period ended September 30, 2011 is as follows:

		Insurance Premiums and Other Considerations		
	Life Insurance In-Force	Annuity Product Charges	Traditional Life Insurance Premiums	Total Insurance Premiums and Other Considerations
Gross amounts	$ 2,256,696	$ 68,436	$ 157,772	$ 226,208
Ceded to other companies	(1,180,412)	(18,776)	(141,628)	(160,404)
Assumed from other companies	22,641		22,858	22,858
Net amount	$ 1,098,925	$ 49,660	$ 39,002	$ 88,662
Percentage of amount assumed	2.06%	0.00%	58.61%	25.78%

(21) Insurance Subsidiary Financial Information

The Company s insurance subsidiaries file financial statements with state insurance regulatory authorities and the National Association of Insurance Commissioners (NAIC) that are prepared in accordance with Statutory Accounting Principles (SAP) prescribed or permitted by such authorities, which may vary materially from US GAAP. Prescribed SAP includes the Accounting Practices and Procedures Manual of the NAIC as well as state laws, regulations and administrative rules. Permitted SAP encompasses all accounting practices not so prescribed. The principal differences between statutory financial statements and financial statements prepared in accordance with US GAAP are that statutory financial statements do not reflect VOBA and DAC, some bond portfolios may be carried at amortized cost, assets and liabilities are presented net of reinsurance, contractholder liabilities are generally valued using more conservative assumptions and certain assets are non-admitted. Accordingly, statutory operating results and statutory capital and surplus may differ substantially from amounts reported in the US GAAP basis financial statements for comparable items. For example, in accordance with the US GAAP acquisition method of accounting, the amortized cost of FGL s invested assets was adjusted to fair value as of the FGL Acquisition Date while it was not adjusted for statutory reporting. Thus, the net unrealized gains on a statutory basis were $697,825 (unaudited) as of September 30, 2011 compared to net unrealized gains of $418,210 on a US GAAP basis, as reported in Note 5.

The Company s insurance subsidiaries statutory financial statements are based on a December 31 year end. The total statutory capital and surplus of FGL Insurance was $801,945 (unaudited) and $902,118 as of September 30, 2011 and December 31, 2010, respectively. The total adjusted statutory capital of FGL Insurance was $830,225 (unaudited) and $902,118 at September 30, 2011 and December 31, 2010, respectively. FGL Insurance had statutory net income of $22,094 (unaudited) and $245,849 for the nine months ended September 30, 2011 and the year ended December 31, 2010, respectively.

Life insurance companies are subject to certain Risk-Based Capital (RBC) requirements as specified by the NAIC. The 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 and (iv) business risk. FGL monitors the RBC of the Company s insurance subsidiaries. As of September 30, 2011, each of FGL s insurance subsidiaries has exceeded the minimum RBC requirements.

The Company s insurance subsidiaries are restricted by state laws and regulations as to the amount of dividends they may pay to their parent without regulatory approval in any year, the purpose of which is to protect affected insurance policyholders, depositors or investors. Any dividends in excess of limits are deemed extraordinary and require approval. Based on statutory results as of December 31, 2010, in accordance with applicable dividend restrictions, FGL s subsidiaries could pay ordinary dividends of $90,212 to FGL in 2011. On December 20, 2010, FGL Insurance paid a dividend to OMGUK (through FGL) in the amount of $59,000, with respect to its 2009 results. Based on its 2010 fiscal year results, FGL Insurance is able to declare an ordinary dividend up to $31,212 through December 20, 2011 (taking into account the December 20, 2010 dividend payment of $59,000). In addition,

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

between December 21, 2011 and December 31, 2011, FGL Insurance may be able to declare an additional ordinary dividend in the amount of 2011 eligible dividends of $90,212, less any dividends paid in the previous twelve months. On September 29, 2011, FGL Insurance paid a dividend to FGL in the amount of $20,000, with respect to its 2011 results, thus reducing the amount of cumulative dividends payable to FGL without regulatory approval after September 30, 2011 to $11,212 through December 20, 2011 and to $70,212 thereafter through December 31, 2011.

(22) Acquisitions

FGL

On April 6, 2011, the Company acquired all of the outstanding shares of capital stock of FGL and certain intercompany loan agreements between the seller, as lender, and FGL, as borrower, for cash consideration of $350,000, which amount could be reduced by up to $50,000 post closing if certain regulatory approval is not received (as discussed further below). The Company incurred approximately $22,700 of expenses related to the FGL Acquisition, including $5,000 of the $350,000 cash purchase price which has been re-characterized as an expense since the seller made a $5,000 expense reimbursement to the Master Fund upon closing of the FGL Acquisition. Such expenses are included in Selling, general and administrative expenses in the Consolidated Statement of Operations for the year ended September 30, 2011. The FGL Acquisition continued HGI s strategy of obtaining controlling equity stakes in subsidiaries that operate across a diversified set of industries.

Net Assets Acquired

The acquisition of FGL has been 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. The fair values assigned to the assets acquired and liabilities assumed are based on valuations using management s best estimates and assumptions and are preliminary pending the completion of the valuation analysis of selected assets and liabilities. During the measurement period (which is not to exceed one year from the acquisition date), the Company is required to retrospectively adjust the provisional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets or liabilities as of that date. Certain estimated values are not yet finalized and are subject to change, which could result in significant retrospective adjustments affecting the bargain purchase gain described below and other previously reported amounts. The more significant items which are provisional and subject to change during the measurement period include deferred income taxes, particularly the related valuation allowance, and the contingent purchase price reduction, both as described below. The following table summarizes the preliminary amounts recognized at fair value for each major class of assets acquired and liabilities assumed as of the FGL Acquisition Date:

Investments, cash and accrued investment income, including cash acquired of $1,040,470	$ 17,705,419
Reinsurance recoverable	929,817
Intangibles (VOBA)	577,163
Deferred tax assets	256,584
Other assets	72,801
Total assets acquired	19,541,784

Contractholder funds and future policy benefits		18,415,022
Liability for policy and contract claims		60,400
Note payable		95,000
Other liabilities		475,285
Total liabilities assumed		19,045,707
Net assets acquired		496,077
Cash consideration, net of $5,000 re-characterized as expense		345,000
Bargain purchase gain	$	151,077

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The application of acquisition accounting resulted in a bargain purchase gain of $151,077, which is reflected in the Consolidated Statement of Operations for the year ended September 30, 2011. The amount of the bargain purchase gain is equal to the amount by which the fair value of net assets acquired exceeded the consideration transferred. The Company believes that the resulting bargain purchase gain is 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 FGL Acquisition Date, (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 FGL Acquisition Date and (d) an independent appraisal of FGL s business indicated that its fair value was in excess of the purchase price.

Contingent Purchase Price Reduction

As contemplated by the terms of the F&G Stock Purchase Agreement and more fully described in Note 26, Front Street Re, Ltd. (Front Street), a recently formed Bermuda-based reinsurer and wholly-owned subsidiary of the Company, subject to regulatory approval, will enter into a reinsurance agreement (the Front Street Reinsurance Transaction) with FGL whereby Front Street would reinsure up to $3,000,000 of insurance obligations under annuity contracts of FGL, and Harbinger Capital Partners II LP (HCP II), an affiliate of the Principal Stockholders, would be appointed the investment manager of up to $1,000,000 of assets securing Front Street s reinsurance obligations under the reinsurance agreement. These assets would be deposited in a reinsurance trust account for the benefit of FGL.

The F&G Stock Purchase Agreement provides for up to a $50,000 post-closing reduction in purchase price if the Front Street Reinsurance Transaction is not approved by the Maryland Insurance Administration or is approved subject to certain restrictions or conditions. Based on management s assessment as of September 30, 2011, it is not probable that the purchase price will be required to be reduced; therefore no value was assigned to the contingent purchase price reduction as of the FGL Acquisition Date.

Reserve Facility

As discussed in Note 20, pursuant to the F&G Stock Purchase Agreement on April 7, 2011, FGL recaptured all of the life business ceded to OM Re. OM Re transferred assets with a fair value of $653,684 to FGL in settlement of all of OM Re s obligations under these reinsurance agreements. Such amounts are reflected in FGL s purchase price allocation. Further, on April 7, 2011, FGL ceded on a coinsurance basis a significant portion of this business to Raven Re. Certain transactions related to Raven Re such as the surplus note issued to OMGUK in the principal amount of $95,000, which was used to partially capitalize Raven Re and the Structuring Fee of $13,750 are also reflected in FGL s purchase price allocation. See Note 20 for additional details.

Intangible Assets

VOBA represents the estimated fair value of the right to receive future net cash flows from in-force contracts in a life insurance company acquisition at the acquisition date. VOBA is being amortized over the expected life of the contracts in proportion to either gross premiums or gross profits, depending on the type of contract. Total gross profits include both actual experience as it arises and estimates of gross profits for future periods. FGL will regularly evaluate and adjust the VOBA balance with a corresponding charge or credit to earnings for the effects of actual gross profits and changes in assumptions regarding estimated future gross profits. The amortization of VOBA is reported in

Amortization of intangibles in the Consolidated Statement of Operations. The proportion of the VOBA balance attributable to each of the product groups associated with this acquisition is as follows: 80.4% related to FIA s, and 19.6% related to deferred annuities.

Refer to Note 10 for FGL s estimated future amortization of VOBA, net of interest, for the next five fiscal years.

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred Taxes

The future tax effects of temporary differences between financial reporting and tax bases of assets and liabilities are measured at the balance sheet date and are recorded as deferred income tax assets and liabilities. The acquisition of FGL is considered a non-taxable acquisition under tax accounting criteria, therefore, the tax basis of assets and liabilities reflect an historical (carryover) basis at the FGL Acquisition Date. However, since assets and liabilities reported under US GAAP are adjusted to fair value as of the FGL Acquisition Date, the deferred tax assets and liabilities are also adjusted to reflect the effects of those fair value adjustments. This resulted in shifting FGL into a significant net deferred tax asset position at the FGL Acquisition Date, principally due to the write-off of DAC and the establishment of a significantly lesser amount of VOBA which resulted in reducing the associated deferred tax liabilities and thereby shifting FGL s net deferred tax position. This shift, coupled with the application of certain tax limitation provisions that apply in the context of a change in ownership transaction, most notably Section 382 of the Internal Revenue Code (the IRC), relating to Limitation in Net Operating Loss Carryforwards and Certain Built-in Losses Following Ownership Change, as well as other applicable provisions under Sections 381-384 of the IRC, require FGL to evaluate the realization of FGL s gross deferred tax asset position and the need to establish a valuation allowance against it. Management determined that a valuation allowance against a portion of the gross deferred tax asset (DTA) would be required.

The components of the net deferred tax assets as of the FGL Acquisition Date are as follows:

Deferred tax assets:	
DAC	$ 96,764
Insurance reserves and claim related adjustments	401,659
Net operating losses	128,437
Capital losses (carryovers and deferred)	267,468
Tax credits	75,253
Other deferred tax assets	27,978
Total deferred tax assets	997,559
Valuation allowance	(405,370)
Deferred tax assets, net of valuation allowance	592,189
Deferred tax liabilities:	
VOBA	202,007
Investments	121,160
Other deferred tax liabilities	12,438
Total deferred tax liabilities	335,605
Net deferred tax assets	$ 256,584

Results of FGL since the FGL Acquisition Date

The following table presents selected financial information reflecting results for FGL that are included in the Consolidated Statement of Operations for the year ended September 30, 2011:

	For the Period April 6, 2011 to September 30, 2011
Total revenues	$ 290,866
Income, net of taxes	23,703

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Russell Hobbs

On June 16, 2010, SBI merged with Russell Hobbs. Russell Hobbs is a designer, marketer and distributor of a broad range of branded small household appliances. Russell Hobbs markets and distributes small kitchen and home appliances, pet and pest products and personal care products. Russell Hobbs has a broad portfolio of recognized brand names, including Black & Decker, George Foreman, Russell Hobbs, Toastmaster, LitterMaid, Farberware, Breadman and Juiceman. Russell Hobbs customers include mass merchandisers, specialty retailers and appliance distributors primarily in North America, South America, Europe and Australia. The results of Russell Hobbs operations since June 16, 2010 are included in the accompanying Consolidated Statements of Operations for Fiscal 2010 and 2011.

In accordance with ASC Topic 805, Spectrum Brands accounted for the SB/RH Merger by applying the acquisition method of accounting. The acquisition method of accounting requires that the consideration transferred in a business combination be measured at fair value as of the closing date of the acquisition. Inasmuch as Russell Hobbs was a private company and its common stock was not publicly traded, the closing market price of the SBI common stock at June 16, 2010 was used to calculate the purchase price. The total purchase price of Russell Hobbs was approximately $597,579 determined as follows:

SBI closing price per share on June 16, 2010	$ 28.15
Purchase price Russell Hobbs allocation 20,704 shares(1)(2)	$ 575,203
Cash payment to pay off Russell Hobbs North American credit facility	22,376
Total purchase price of Russell Hobbs	$ 597,579

(1) Number of shares calculated based upon conversion formula, as defined in the merger agreement, using balances as of June 16, 2010.

(2) The fair value of 271 shares of unvested restricted stock units as they relate to post combination services will be recorded as operating expense over the remaining service period and were assumed to have no fair value for the purchase price.

Purchase Price Allocation

The total purchase price for Russell Hobbs was allocated to the net tangible and intangible assets based upon their fair values at June 16, 2010 as set forth below. The excess of the purchase price over the net tangible assets and intangible assets was recorded as goodwill. As measurement period for the SB/RH Merger has closed, during which

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

no adjustments were made to the preliminary purchase price allocation. The final purchase price allocation for Russell Hobbs is as follows:

Current assets	$ 307,809
Properties	15,150
Intangibles	363,327
Goodwill(a)	120,079
Other assets	15,752
Total assets acquired	822,117
Current liabilities	142,046
Total debt	18,970
Other liabilities	63,522
Total liabilities assumed	224,538
Net assets acquired	$ 597,579

(a) Consists of $25,426 of tax deductible Goodwill

Pre-Acquisition Contingencies Assumed

Spectrum Brands has evaluated pre-acquisition contingencies relating to Russell Hobbs that existed as of the acquisition date. Based on the evaluation, Spectrum Brands has determined that certain pre-acquisition contingencies are probable in nature and estimable as of the acquisition date. Accordingly, Spectrum Brands has recorded its best estimates for these contingencies as part of the purchase price allocation for Russell Hobbs. As the measurement period has closed, adjustments to pre-acquisition contingency amounts are reflected in the Company s results of operations.

ASC Topic 805 requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Accordingly, Spectrum Brands performed a valuation of the assets and liabilities of Russell Hobbs at June 16, 2010. Significant adjustments as a result of the purchase price allocation are summarized as follows:

Inventories An adjustment of $1,721 was recorded to adjust inventory to fair value. Finished goods were valued at estimated selling prices less the sum of costs of disposal and a reasonable profit allowance for the selling effort.

Deferred tax liabilities, net An adjustment of $43,086 was recorded to adjust deferred taxes for the fair value allocations made in accounting for the purchase.

Properties, net An adjustment of $(455) was recorded to adjust the net book value of properties to fair value giving consideration to their highest and best use. The valuation of Spectrum Brands properties were based on the cost approach.

Certain indefinite-lived intangible assets were valued using a relief from royalty methodology. Customer relationships and certain definite-lived intangible assets were valued using a multi-period excess earnings method. The total fair value of indefinite and definite lived intangibles was $363,327 as of June 16, 2010. A summary of the significant key inputs is as follows:

Spectrum Brands valued customer relationships using the income approach, specifically the multi-period excess earnings method. In determining the fair value of the customer relationship, the multi-period excess earnings approach values the intangible asset at the present value of the incremental after-tax cash flows

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

attributable only to the customer relationship after deducting contributory asset charges. The incremental after-tax cash flows attributable to the subject intangible asset are then discounted to their present value. Only expected sales from current customers were used which included an expected growth rate of 3%. Spectrum Brands assumed a customer retention rate of approximately 93% which was supported by historical retention rates. Income taxes were estimated at 36% and amounts were discounted using a rate of 15.5%. The customer relationships were valued at $38,000 under this approach.

Spectrum Brands valued trade names and trademarks using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade name was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of Russell Hobbs related trademarks and trade names, other similar trademark licensing and transaction agreements and the relative profitability and perceived contribution of the trademarks and trade names. Royalty rates used in the determination of the fair values of trade names and trademarks ranged from 2.0% to 5.5% of expected net sales related to the respective trade names and trademarks. Spectrum Brands anticipates using the majority of the trade names and trademarks for an indefinite period as demonstrated by the sustained use of each subjected trademark. In estimating the fair value of the trademarks and trade names, net sales for significant trade names and trademarks were estimated to grow at a rate of 1%-14% annually with a terminal year growth rate of 3%. Income taxes were estimated in a range of 30%-38% and amounts were discounted using rates between 15.5%-16.5%. Trade name and trademarks were valued at $170,930 under this approach.

Spectrum Brands valued a trade name license agreement using the income approach, specifically the multi-period excess earnings method. In determining the fair value of the trade name license agreement, the multi-period excess earnings approach values the intangible asset at the present value of the incremental after-tax cash flows attributable only to the trade name license agreement after deducting contributory asset charges. The incremental after-tax cash flows attributable to the subject intangible asset are then discounted to their present value. In estimating the fair value of the trade name license agreement net sales were estimated to grow at a rate of (3)%-1% annually. Spectrum Brands assumed a twelve year useful life of the trade name license agreement. Income taxes were estimated at 37% and amounts were discounted using a rate of 15.5%. The trade name license agreement was valued at $149,200 under this approach.

Spectrum Brands valued technology using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the technology was not owned. Royalty rates were selected based on consideration of several factors including prior transactions of Russell Hobbs related licensing agreements and the importance of the technology and profit levels, among other considerations. Royalty rates used in the determination of the fair values of technologies were 2% of expected net sales related to the respective technology. Spectrum Brands anticipates using these technologies through the legal life of the underlying patent and therefore the expected life of these technologies was equal to the remaining legal life of the underlying patents ranging from 9 to 11 years. In estimating the fair value of the technologies, net sales were estimated to grow at a rate of 3%-12% annually. Income taxes were estimated at 37% and amounts were discounted using the rate of 15.5%. The technology assets were valued at $4,100 under this approach.

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Supplemental Pro Forma Information Unaudited

The following table reflects the Company s unaudited pro forma results for Fiscal 2011 and Fiscal 2010 had the results of Russell Hobbs and FGL been included for all periods beginning after September 30, 2009, as if the respective acquisitions were completed on October 1, 2009:

	Successor	
	2011	**2010**
Revenues:		
Reported revenues	$ 3,477,782	$ 2,567,011
FGL adjustment(a)	685,767	953,911
Russell Hobbs adjustment		543,952
Pro forma revenues	$ 4,163,549	$ 4,064,874
Income (loss) from continuing operations:		
Reported income (loss) from continuing operations	$ 115	$ (195,507)
FGL adjustment(a)	84,912	(206,441)
Russell Hobbs adjustment		(5,504)
Pro forma income (loss) from continuing operations	$ 85,027	$ (407,452)
Income (loss) per common share from continuing operations:		
Reported basic income (loss) per share from continuing operations	$ 0.07	$ (1.13)
FGL adjustment	0.42	(1.56)
Russell Hobbs adjustment		(0.04)
Pro forma basic income (loss) per share from continuing operations	$ 0.49	$ (2.73)
Pro forma diluted income (loss) per share from continuing operations	$ 0.49	$ (2.73)

(a) The FGL adjustments primarily reflect the following pro forma adjustments applied to FGL s historical results:

Reduction in net investment income to reflect amortization of the premium on fixed maturity securities available-for-sale resulting from the fair value adjustment of these assets;

Reversal of amortization associated with the elimination of FGL s historical DAC;

Amortization of VOBA associated with the establishment of VOBA arising from the acquisition;

Adjustments to reflect the impacts of the recapture of the life business from OM Re and the retrocession of the majority of the recaptured business and the reinsurance of certain life business previously not reinsured to an unaffiliated third party reinsurer;

Adjustments to eliminate interest expense on notes payable to seller and add interest expense on new surplus note payable;

Amortization of reserve facility Structuring Fee;

Adjustments to reflect the full-period effect of interest expense on the initial $350,000 of 10.625% Notes issued on November 15, 2010, the proceeds of which were used to fund the FGL Acquisition.

Reversal of the change in the deferred tax valuation allowance included in the income tax provision.

Other Acquisitions

During Fiscal 2011, Spectrum Brands completed several business acquisitions which were not significant individually or collectively. The largest of these was the $10,524 cash acquisition of Seed Resources, LLC

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Seed Resources) on December 3, 2010. Seed Resources is a wild seed cake producer through its Birdola premium brand seed cakes. The acquisition was accounted for under the acquisition method of accounting. The results of Seed Resources operations since December 3, 2010 are included in the accompanying Consolidated Statement of Operations for the year ended September 30, 2011. The preliminary purchase price of $12,500 (representing cash paid of $10,524 and contingent consideration accrued of $1,976), including $1,100 of trade name intangible assets and $10,029 of goodwill, for this acquisition was based upon a preliminary valuation. Spectrum Brands estimates and assumptions for this acquisition are subject to change as Spectrum Brands obtains additional information for its estimates during the measurement period. The primary areas of the purchase price allocation that are not yet finalized relate to certain legal matters, income and non-income based taxes and residual goodwill.

Acquisition and Integration Related Charges

Acquisition and integration related charges reflected in Selling, general and administrative expenses include, but are not limited to transaction costs such as banking, legal and accounting professional fees directly related to an acquisition, termination and related costs for transitional and certain other employees, integration related professional fees and other post business combination related expenses. Such charges in Fiscal 2011 relate primarily to the SB/RH Merger, the Spectrum Brands Acquisition and the FGL Acquisition and in Fiscal 2010 relate primarily to the SB/RH Merger. There were no acquisition and integration related charges in the Fiscal 2009 periods presented.

The following table summarizes acquisition and integration related charges incurred by the Company during Fiscal 2011 and Fiscal 2010:

	2011	2010
Banking, legal and accounting professional fees	$ 32,410	$ 31,611
Integration costs	23,084	3,777
Employee termination charges	8,105	9,713
Total acquisition and integration related charges	$ 63,599	$ 45,101

(23) Restructuring and Related Charges

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

The Company reports restructuring and related charges relating to administrative functions of Spectrum Brands in Selling, general and administrative expenses, which include, but are not limited to, initiatives impacting sales, marketing, distribution, or other non-manufacturing related functions. Restructuring and related charges reflected in Selling, general and administrative expenses include, but are not limited to, termination and related costs, any asset impairments relating to the functional areas described above, and other costs directly related to the initiatives implemented as well as consultation, legal and accounting fees related to the evaluation of the Predecessor s capital

structure incurred prior to the Bankruptcy Filing.

In 2009, Spectrum Brands implemented a series of initiatives to reduce operating costs as well as evaluate Spectrum Brands opportunities to improve its capital structure (the Global Cost Reduction Initiatives). These initiatives included headcount reductions and the exit of certain facilities in the U.S. These initiatives also included consultation, legal and accounting fees related to the evaluation of Spectrum Brands capital structure. In 2008, Spectrum Brands implemented an initiative within certain of its operations in China to reduce operating costs and rationalize Spectrum Brands manufacturing structure. These initiatives included the plan to exit

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Spectrum Brands Ningbo, China battery manufacturing facility (the Ningbo Exit Plan). In 2007, Spectrum Brands implemented an initiative in Latin America to reduce operating costs (the Latin American Initiatives). These initiatives included the reduction of certain manufacturing operations in Brazil and the restructuring of management, sales, marketing, and support functions. In 2007, Spectrum Brands began managing its business in three vertically integrated, product-focused lines of business (the Global Realignment Initiatives). In connection with these changes, Spectrum Brands undertook a number of cost reduction initiatives, primarily headcount reduction. In 2006, Spectrum Brands implemented a series of initiatives within certain of its European operations to reduce operating costs and rationalize Spectrum Brands manufacturing structure (the European Initiatives). In connection with the acquisitions of United Industries Corporation and Tetra Holding GmbH in 2005, Spectrum Brands implemented a series of initiatives to optimize the global resources of the combined companies (the United and Tetra Integration).

The following table summarizes restructuring and related charges incurred by initiative:

Restructuring and Related Charges

	Successor			Predecessor				
itiatives:	2011	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2009 through August 30, 2009	Charges Since Inception	Expected Future Charges	Total Projected Costs	Expected Completion Date
obal Cost eduction	$ 25,484	$ 18,443	$ 1,550	$ 18,851	$ 64,328	$ 13,587	$ 77,915	January 31, 2015
ngbo Exit Plan	273	2,162	165	10,652	29,651		29,651	Complete
tin America				207	11,447		11,447	Complete
obal Realignment	3,138	3,605	139	11,636	91,725	702	92,427	June 30, 2013
uropean	(251)	(92)	7	11	26,714		26,714	Substantially Comple
nited & Tetra / her			(132)	2,723	79,544		79,544	Complete
	$ 28,644	$ 24,118	$ 1,729	$ 44,080	$ 303,409	$ 14,289	$ 317,698	

The following table summarizes restructuring and related charges incurred by type of charge and where those charges are classified in the accompanying Consolidated Statements of Operations:

	Successor		Predecessor
		Period from August 31,	Period from October 1, 2008 through

	2011	2010	2009 through September 30, 2009	August 30, 2009
Costs included in cost of goods sold:				
Global Cost Reduction Initiatives:				
Termination benefits	$ 1,679	$ 2,630	$	$ 200
Other associated costs	5,889	2,273	6	2,245
Ningbo Exit Plan:				
Termination benefits		14		857
Other associated costs	273	2,148	165	8,461
Latin America initiatives:				
Termination benefits				207
Global Realignment Initiatives:				
Termination benefits		187		333
Other associated costs		(102)		869

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Successor			Predecessor
	2011	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
European Initiatives:				
Other associated costs			7	11
United & Tetra Integration:				
Termination benefits				6
Total included in cost of goods sold	7,841	7,150	178	13,189
Costs included in selling, general and administrative expenses:				
Global Cost Reduction Initiatives:				
Termination benefits	10,155	4,268	866	5,690
Other associated costs	7,761	9,272	678	10,716
Ningbo Exit Plan:				
Other associated costs				1,334
Global Realignment Initiatives:				
Termination benefits	1,207	5,361	94	6,994
Other associated costs	1,931	(1,841)	45	3,440
European Initiatives:				
Termination benefits	(251)	(92)		
United & Tetra Integration:				
Termination benefits				2,297
Other associated costs			(132)	427
Breitenbach, France facility closure				(7)
Total included in selling, general and administrative expenses	20,803	16,968	1,551	30,891
Total restructuring and related charges	$ 28,644	$ 24,118	$ 1,729	$ 44,080

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the remaining accrual balance associated with the initiatives and the activity during Fiscal 2011:

Remaining Accrual Balance

Initiatives	Accrual Balance at September 30, 2010	Provisions	Cash Expenditures	Non-Cash Items	Accrual Balance at September 30, 2011	Expensed as Incurred(a)
Global Cost Reduction						
Termination benefits	$ 6,447	$ 10,423	$ (8,286)	$ 211	$ 8,795	$ 1,411
Other costs	4,005	1,319	(2,890)	587	3,021	12,331
	10,452	11,742	(11,176)	798	11,816	13,742
Ningbo Exit Plan						
Other costs	491	24	(143)	(372)		249
	491	24	(143)	(372)		249
Global Realignment						
Termination benefits	8,721	1,207	(7,394)	(5)	2,529	
Other costs	2,281	71	(832)	322	1,842	1,860
	11,002	1,278	(8,226)	317	4,371	1,860
European						
Termination benefits	1,801	(251)	(638)	(912)		
Other costs	47		(47)			
	1,848	(251)	(685)	(912)		
	$ 23,793	$ 12,793	$ (20,230)	$ (169)	$ 16,187	$ 15,851

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

(24) Reorganization Items

Reorganization items (expense) income, net represents expenses, income, gains and losses that SBI identified as directly relating to its voluntary petitions under the Bankruptcy Code and consists of the following:

	Successor		Predecessor
	Year Ended September 30, 2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Legal and professional fees	$ (3,536)	$ (3,962)	$ (74,624)
Deferred financing costs			(10,668)
Provision for rejected leases	(110)		(6,020)
Administrative related reorganization items	$ (3,646)	$ (3,962)	$ (91,312)
Gain on cancellation of debt			146,555
Fresh-start reporting adjustments			1,087,566
	$ (3,646)	$ (3,962)	$ 1,142,809

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company did not recognize any reorganization items during Fiscal 2011.

(25) Discontinued Operations

On November 11, 2008, the Predecessor s board of directors approved the shutdown of its line of growing products, which included the manufacturing and marketing of fertilizers, enriched soils, mulch and grass seed. The decision to shut down the growing products line was made only after the Predecessor was unable to successfully sell this business, in whole or in part. The shutdown of its line of growing products was completed during the second quarter of Fiscal 2009.

The presentation herein of the results of continuing operations excludes its line of growing products for all periods presented. The following amounts have been segregated from continuing operations and are reflected as discontinued operations:

	Successor		Predecessor
	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Net sales	$	$	$ 31,306
(Loss) income from discontinued operations before income taxes	$ (2,512)	$ 408	$ (91,293)
Income tax expense (benefit)	223		(4,491)
(Loss) income from discontinued operations, net of tax	$ (2,735)	$ 408	$ (86,802)

The Company did not record any (loss) income from discontinuted operations in Fiscal 2011.

(26) Related Party Transactions

Harbinger Capital Partners LLC (Harbinger Capital), an affiliate of the Company and the Principal Stockholders, provides advisory and consulting services to the Company. The Company has agreed to reimburse Harbinger Capital $1,500 for its out-of-pocket expenses and the cost of certain services performed by legal and accounting personnel of Harbinger Capital during Fiscal 2011. The Company believes the amount of the reimbursement is reasonable; however, it does not necessarily represent the costs that would have been incurred by the Company on a stand-alone basis. This reimbursement was approved by a special committee of the Company s board of directors, represented by independent counsel, consisting solely of directors who were determined by the Company s board of directors to be independent under the New York Stock Exchange (NYSE) rules.

On September 10, 2010, the Company entered into the Exchange Agreement with the Principal Stockholders, whereby the Principal Stockholders agreed to contribute a majority interest in Spectrum Brands to the Company in the

Spectrum Brands Acquisition in exchange for 4.32 shares of the Company s common stock for each share of Spectrum Brands common stock contributed to the Company. The exchange ratio of 4.32 to 1.00 was based on the respective volume weighted average trading prices of the Company s 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 the Company received the Principal Stockholders proposal for the Spectrum Brands Acquisition.

On September 10, 2010, a special committee of the Company s board of directors advised by independent counsel and other advisors (the Spectrum Special Committee), consisting solely of directors who were determined by the Company s board of directors to be independent under the NYSE rules, unanimously determined that the Exchange Agreement and the Spectrum Brands Acquisition, were advisable to, and in the best interests of, the Company and

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

its stockholders (other than Harbinger Capital), approved the Exchange Agreement and the transactions contemplated thereby, and recommended that the Company s board of directors approve the Exchange Agreement and the Company s stockholders approve the issuance of the Company s common stock pursuant to the Exchange Agreement. On September 10, 2010, the Company s board of directors (based in part on the unanimous approval and recommendation of the Spectrum Special Committee) unanimously determined that the Exchange Agreement and the Spectrum Brands Acquisition were advisable to, and in the best interests of, the Company and its stockholders (other than Harbinger Capital), approved the Exchange Agreement and the transactions contemplated thereby, and recommended that the Company s stockholders approve the issuance of its common stock pursuant to the Exchange Agreement.

On September 10, 2010, the Principal Stockholders, who held a majority of the Company s outstanding common stock on that date, approved the issuance of the Company s common stock pursuant to the Exchange Agreement by written consent in lieu of a meeting pursuant to Section 228 of the General Corporation Law of the State of Delaware.

On January 7, 2011, the Company completed the Spectrum Brands Acquisition pursuant to the Exchange Agreement entered into on September 10, 2010 with the Principal Stockholders. In connection therewith, the Company issued an aggregate of 119,910 shares of its common stock in exchange for an aggregate of 27,757 shares of common stock of Spectrum Brands (the Spectrum Brands Contributed Shares), or approximately 54.5% of the then outstanding Spectrum Brands common stock.

Upon the consummation of the Spectrum Brands Acquisition, the Company became a party to a registration rights agreement, by and among the Principal Stockholders, Spectrum Brands and the other parties listed therein, pursuant to which the Company obtained certain demand and piggy back registration rights with respect to the shares of Spectrum Brands common stock held by the Company.

Following the consummation of the Spectrum Brands Acquisition, the Company also became a party to a stockholders agreement, by and among the Principal Stockholders and Spectrum Brands (the SB Stockholder Agreement). Under the SB Stockholder Agreement, the parties thereto have agreed to certain governance arrangements, transfer restrictions and certain other limitations with respect to Going Private Transactions (as such term is defined in the SB Stockholder Agreement).

The issuance of shares of the Company s common stock to the Principal Stockholders pursuant to the Exchange Agreement and the acquisition by the Company of the Spectrum Brands Contributed Shares were not registered under the Securities Act. These shares are restricted securities under the Securities Act. The Company may not be able to sell the Spectrum Brands Contributed Shares and the Principal Stockholders may not be able to sell their shares of the Company s common stock acquired pursuant to the Exchange Agreement except pursuant to: (i) an effective registration statement under the Securities Act covering the resale of those shares, (ii) Rule 144 under the Securities Act, which requires a specified holding period and limits the manner and volume of sales, or (iii) any other applicable exemption under the Securities Act.

On March 7, 2011, the Company entered into an agreement (the Transfer Agreement) with the Master Fund whereby on March 9, 2011, (i) the Company acquired from the Master Fund a 100% membership interest in HFG, which was the buyer under the F&G Stock Purchase Agreement, between HFG and OMGUK, pursuant to which HFG agreed to acquire 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 $350,000, which could be reduced by up to $50,000 post closing if certain regulatory approval is not received, and (ii) the Master Fund transferred to HFG the sole issued and

outstanding Ordinary Share of FS Holdco Ltd, a Cayman Islands exempted limited company (FS Holdco) (together, the Insurance Transaction). In consideration for the interests in HFG and FS Holdco, the Company agreed to reimburse the Master Fund for certain expenses incurred by the Master Fund in connection with the Insurance Transaction (up to a maximum of $13,300) and to submit certain expenses of the Master Fund for reimbursement by OM Group under the F&G Stock Purchase Agreement. The Transfer Agreement

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and the transactions contemplated thereby, including the F&G Stock Purchase Agreement, was approved by the Company s Board of Directors upon a determination by a special committee (the FGL Special Committee) comprised solely of directors who were independent under the rules of the NYSE and represented by independent counsel and other advisors, that it was in the best interests of the Company and its stockholders (other than the Master Fund and its affiliates) to enter into the Transfer Agreement and proceed with the Insurance Transaction. On April 6, 2011, the Company completed the FGL Acquisition.

FS Holdco is a holding company, which is the indirect parent company of Front Street. Neither HFG nor FS Holdco has engaged in any significant business other than transactions contemplated in connection with the Insurance Transaction.

On May 19, 2011, the FGL Special Committee unanimously determined that it is (i) in the best interests of the Company and its stockholders (other than Harbinger Capital and its affiliates) for Front Street and FGL, to enter into a reinsurance agreement (the Reinsurance Agreement), pursuant to which Front Street would reinsure up to $3,000,000 of insurance obligations under annuity contracts of FGL and (ii) in the best interests of the Company for Front Street and HCP II to enter into an investment management agreement (the Investment Management Agreement), pursuant to which HCP II would be appointed as the investment manager of up to $1,000,000 of assets securing Front Street s reinsurance obligations under the Reinsurance Agreement, which assets will be deposited in a reinsurance trust account for the benefit of FGL pursuant to a trust agreement (the Trust Agreement). On May 19, 2011, the Company s board of directors approved the Reinsurance Agreement, the Investment Management Agreement, the Trust Agreement and the transactions contemplated thereby. The FGL Special Committee s consideration of the Reinsurance Agreement, the Trust Agreement, and the Investment Management Agreement was contemplated by the terms of the Transfer Agreement. In considering the foregoing matters, the FGL Special Committee was advised by independent counsel and received an independent third-party fairness opinion.

HFG s pre-closing and closing obligations under the F&G Stock Purchase Agreement, including payment of the purchase price, were guaranteed by the Master Fund. Pursuant to the Transfer Agreement, the Company entered into a Guaranty Indemnity Agreement (the Guaranty Indemnity) with the Master Fund, pursuant to which the Company agreed to indemnify the Master Fund for any losses incurred by it or its representatives in connection with the Master Fund s guaranty of HFG s pre-closing and closing obligations under the Purchase Agreement.

On July 14, 2011, the Master Fund and Spectrum Brands entered into an equity underwriting agreement with Credit Suisse Securities (USA) LLC, as representative of the underwriters listed therein, with respect to the offering of 1,000 shares of Spectrum Brands common stock by Spectrum Brands and 5,495 shares of Spectrum Brands common stock by the Master Fund, at a price per share to the public of $28.00. HGI did not sell any shares of Spectrum Brands common stock in the offering. In connection with the offering, HGI entered into a 180-day lock up agreement. In addition, the Master Fund entered into a standstill agreement with HGI, pursuant to which the Master Fund agreed that it would not, among other things (a) either individually or as part of a group, acquire, offer to acquire, or agree to acquire any securities (or beneficial ownership thereof) of Spectrum Brands; (b) other than with respect to certain existing holdings, form, join or in any way participate in a group with respect to any securities of Spectrum Brands; (c) effect, seek, offer, propose or cause or participate in (i) any merger, consolidation, share exchange or business combination involving Spectrum Brands or any material portion of Spectrum Brands business, (ii) any purchase or sale of all or any substantial part of the assets of Spectrum Brands or any material portion of the Spectrum Brands business; (iii) any recapitalization, reorganization or other extraordinary transaction with respect to Spectrum Brands or any material portion of the Spectrum Brands business, or (iv) any representation on the board of directors of

Spectrum Brands.

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Segment and Geographic Data

Segment information for the periods presented is as follows:

	Successor			Predecessor
	2011	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Revenues:				
Consumer products	$ 3,186,916	$ 2,567,011	$ 219,888	$ 2,010,648
Insurance	290,866			
Consolidated revenues	$ 3,477,782	$ 2,567,011	$ 219,888	$ 2,010,648
Depreciation and amortization:				
Consumer products	$ 135,149	$ 117,418	$ 8,671	$ 58,480
Insurance	(11,115)			
Total segments	124,034	117,418	8,671	58,480
Corporate depreciation and amortization	207	53		
Consolidated depreciation and amortization	$ 124,241	$ 117,471	$ 8,671	$ 58,480
Operating income (loss):				
Consumer products	$ 227,944	$ 168,778	$ 108	$ 156,805
Insurance	(18,041)			
Total segments	209,903	168,778	108	156,805
Corporate expenses(a)	(46,217)	(8,324)		
Consolidated operating income (loss)	163,686	160,454	108	156,805
Interest expense	(249,260)	(277,015)	(16,962)	(172,940)
Bargain purchase gain from business acquisition	151,077			
Other (expense) income, net	(14,833)	(12,105)	816	(3,320)
Reorganization items (expense) income, net		(3,646)	(3,962)	1,142,809
Consolidated income (loss) from continuing operations before income taxes	$ 50,670	$ (132,312)	$ (20,000)	$ 1,123,354

	Successor			Predecessor
	2011	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Capital expenditures:				
Consumer products	$ 36,160	$ 40,316	$ 2,718	$ 8,066
Insurance	1,745			
Total segments	37,905	40,316	2,718	8,066
Corporate capital expenditures	345	58		
Consolidated capital expenditures	$ 38,250	$ 40,374	$ 2,718	$ 8,066

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	September 30, 2011	September 30, 2010
Total assets:		
Consumer products	$ 3,626,706	$ 3,873,604
Insurance	19,336,627	
Total segments	22,963,333	3,873,604
Corporate assets	616,221	142,591
Consolidated total assets	$ 23,579,554	$ 4,016,195

	September 30, 2011	September 30, 2010
Total long-lived assets(b):		
Consumer products	$ 2,578,418	$ 2,673,892
Insurance	460,694	
Total segments	3,039,112	2,673,892
Corporate long-lived assets	19,952	640
Consolidated long-lived assets	$ 3,059,064	$ 2,674,532

(a) Included in corporate expenses are $26,996 and $6,649 related to business acquisitions and $4,359 and $212 related to Front Street for Fiscal 2011 and Fiscal 2010, respectively.

(b) Total long-lived assets include all non-current assets of the Consumer Products and Other section of the Consolidated Balance Sheet and properties (included in Other assets) and intangibles of the Insurance section.

The Company s geographic data disclosures are as follows:

Net sales to external customers:

	Successor		Predecessor
		August 31, 2009 through September 30,	Period from October 1, 2008 through

	2011	2010	2009	August 30, 2009
United States	$ 1,780,127	$ 1,444,779	$ 113,407	$ 1,166,920
Outside the United States	1,406,789	1,122,232	106,481	843,728
Consolidated net sales to external customers	$ 3,186,916	$ 2,567,011	$ 219,888	$ 2,010,648

	September 30, 2011	2010
Long-lived assets:		
United States	$ 2,324,515	$ 1,885,635
Outside the United States	734,549	788,897
Consolidated long-lived assets at year end	$ 3,059,064	$ 2,674,532

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Venezuela Hyperinflation

Spectrum Brands does business in Venezuela through a Venezuelan subsidiary. At January 4, 2010, the beginning of the second quarter of Fiscal 2010, Spectrum Brands 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 is the functional currency for Spectrum Brands Venezuelan subsidiary. Accordingly, going forward, currency remeasurement adjustments for this subsidiary s financial statements and other transactional foreign exchange gains and losses are reflected in earnings. Through January 3, 2010, prior to being designated as highly inflationary, translation adjustments related to the Venezuelan subsidiary were reflected as a component of AOCI.

In addition, on January 8, 2010, the Venezuelan government announced its intention to devalue its currency, the Bolivar fuerte, relative to the U.S. dollar. As a result, Spectrum Brands remeasured the local balance sheet of its Venezuela entity during the second quarter of Fiscal 2010 to reflect the impact of the devaluation to the official exchange rate of 4.3 Bolivian fuerte per U.S. dollar. Based on actual exchange activity as of September 30, 2010, Spectrum Brands determined that the most likely method of exchanging its Bolivar fuertes for U.S. dollars would be to formally apply with the Venezuelan government to exchange through commercial banks at the Transaction System for Foreign Currency Denominated Securities (SITME) rate specified by the Central Bank of Venezuela. The SITME rate as of September 30, 2010 was quoted at 5.3 Bolivar fuerte per U.S. dollar. Therefore, Spectrum Brands changed the rate used to remeasure Bolivar fuerte denominated transactions as of September 30, 2010 from the official exchange rate to the 5.3 SITME rate in accordance with ASC Topic 830, *Foreign Currency Matters,* (ASC 830) as it was the expected rate that exchanges of Bolivar fuerte to U.S. dollars would be settled.

The designation of the Spectrum Brands Venezuela entity as a highly inflationary economy and the devaluation of the Bolivar fuerte resulted in a $1,486 reduction to the Company s operating income during Fiscal 2010. The Company also reported a foreign exchange loss in Other (expense) income, net of $10,102 during Fiscal 2010.

As of September 30, 2011, Spectrum Brands is no longer exchanging its Bolivar Fuertes for U.S. dollars through the SITME mechanism and the SITME is no longer the most likely method of exchanging its Bolivar fuertes for U.S. dollars. Therefore, Spectrum Brands changed the rate used to remeasure Bolivar fuerte denominated transactions as of September 30, 2011 from the 5.3 SITME rate to the 4.3 official exchange rate in accordance with ASC 830 as it is the expected rate that exchanges of Bolivar fuerte to U.S. dollars will be settled. Spectrum Brands reported a foreign exchange gain in Other (expense) income, net of $1,293 during Fiscal 2011 related to the change to the official exchange rate.

(28) Quarterly Results (Unaudited)

	Quarter Ended			
	September 30, 2011	**July 3, 2011**	**April 3, 2011**	**January 2, 2011**
Net sales	$ 827,330	$ 804,635	$ 693,885	$ 861,066
Total revenues	888,541	1,034,290	693,885	861,066
Gross profit	280,496	293,694	255,439	299,238
Operating income (loss)	(43,953)	120,516	22,429	64,694

Net income (loss) attributable to common and participating preferred stockholders	(107,095)	204,077(a)	(61,950)	(20,070)
Basic and diluted income (loss) per common share	(0.77)	1.12(a)	(0.45)	(0.14)

(a) The previously reported amounts of $187,668, or $1.03 per common share, have been retrospectively adjusted for a $16,409 increase in the bargain purchase gain from the FGL Acquisition resulting from adjustments made to the preliminary purchase price allocation during the fourth quarter.

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HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Quarter Ended			
	September 30, 2010	July 4, 2010	April 4, 2010	January 3, 2010
Net sales/total revenues	$ 788,999	$ 653,486	$ 532,586	$ 591,940
Gross profit	274,499	252,869	209,580	184,462
Operating income	36,836	59,088	45,771	18,759
Net loss attributable to common and participating preferred stockholders	(20,968)	(51,618)	(19,034)	(60,249)
Basic and diluted loss per common share	(0.15)	(0.39)	(0.15)	(0.46)

(29) Subsequent Events

Raven Springing Amendment

On October 17, 2011, FGL Insurance and Wilton Re executed the revised and restated Raven Springing Amendment with an effective date of October 1, 2011. As a result, FGL Insurance recaptured from Raven Re all of the business that had been financed with a letter of credit facility provided by an unaffiliated financial institution and guaranteed by OMGUK and HFG. This letter of credit facility was terminated upon recapture of the business, eliminating any future financial obligations related to this reserve facility. In connection with the termination, the $95,000 surplus note issued by Raven Re was settled at face value without the payment of interest.

FGL Insurance transferred cash and invested assets totaling approximately $595,359 to Wilton Re in connection with the execution of the revised and restated Raven Springing Amendment.

Execution of the Raven Springing Amendment fulfills the Company s obligation under the F&G Stock Purchase Agreement to replace the Raven Re reserve facility by December 31, 2012.

Acquisitions

On November 1, 2011, Spectrum Brands completed the $43,750 cash acquisition of certain trade name brands from The Homax Group, Inc., a portfolio company of Olympus Partners. The Company will account for the acquisition, which is not significant individually, under the acquisition method of accounting and is in the process of preparing the preliminary purchase price allocation.

On December 5, 2011, Spectrum Brands signed a definitive agreement to acquire all of the issued and outstanding common stock of FURminator, Inc. for $140,000 in cash. The transaction is subject to customary closing and regulatory approvals. The Company will account for the acquisition by applying the acquisition method of accounting and is in the process of preparing the preliminary purchase price allocation.

Spectrum Brands Notes Offering

In November 2011, Spectrum Brands completed the offering of $200,000 aggregate principal amount of 9.5% Notes at a price of 108.5% of the par value; these notes are in addition to the $750,000 aggregate principal amount of

9.5% Notes already outstanding. The additional notes are guaranteed by Spectrum Brands existing and future domestic restricted subsidiaries and secured by liens on substantially all of their assets.

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Schedule

Condensed Financial Information Of Parent Company Only Disclosure

SCHEDULE I

HARBINGER GROUP INC. (Registrant Only)

CONDENSED BALANCE SHEETS
(In thousands)

	September 30, 2011	September 30, 2010
ASSETS		
Cash and cash equivalents	$ 134,790	$ 84,262
Short-term investments	74,889	53,965
Prepaid expenses and other current assets	1,678	1,740
Total current assets	211,357	139,967
Investments in consolidated subsidiaries	1,509,977	562,755
Advances to consolidated subsidiaries	58,773	9,434
Properties, net	410	145
Deferred charges and other assets	14,543	495
Total assets	$ 1,795,060	$ 712,796
LIABILITIES AND EQUITY		
Accounts payable	$ 366	$ 1,450
Accrued and other current liabilities	33,844	3,786
Total current liabilities	34,210	5,236
Long-term debt	497,168	
Equity conversion feature of preferred stock	75,350	
Employee benefit obligations	6,055	5,221
Deferred income taxes	1,343	
Other liabilities	320	684
Total liabilities	614,446	11,141
Temporary equity:		
Redeemable preferred stock	292,437	
Stockholders equity:		
Common stock	1,393	1,392
Additional paid-in capital	872,683	855,767

Accumulated deficit		(135,347)		(150,309)
Accumulated other comprehensive income (loss)		149,448		(5,195)
Total stockholders equity		888,177		701,655
Total liabilities and equity	$	1,795,060	$	712,796

See accompanying Report of Independent Registered Public Accounting Firm.

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SCHEDULE I
(continued)

HARBINGER GROUP INC. (Registrant Only)

CONDENSED STATEMENTS OF OPERATIONS
(In thousands)

	Year Ended September 30, 2011	Period from June 16, 2010(a) through September 30, 2010
Revenues	$	$
Cost of revenues		
Gross profit		
Operating expenses:		
General and administrative	13,883	1,438
Acquisition related charges	8,696	6,649
Total operating expenses	22,579	8,087
Operating loss	(22,579)	(8,087)
Other income (expense):		
Equity in net income (losses) of subsidiaries	67,750	(55,772)
Interest expense	(39,005)	
Other, net	28,633	195
Income (loss) before income taxes	34,799	(63,664)
Income tax expense	4	6
Net income (loss)	34,795	(63,670)
Less: Preferred stock dividends and accretion	19,833	
Net income (loss) attributable to common and participating preferred stockholders	$ 14,962	$ (63,670)

(a) Date from which the registrant s results of operations are included in the accompanying consolidated financial statements, as discussed further in Note 1 to the consolidated financial statements.

See accompanying Report of Independent Registered Public Accounting Firm.

SCHEDULE I
(continued)

HARBINGER GROUP INC. (Registrant Only)

CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended September 30, 2011	Period from June 16, 2010 through September 30, 2010
Cash flows from operating activities:		
Net income (loss)	$ 34,795	$ (63,670)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation of properties	91	19
Stock-based compensation	116	34
Amortization of debt issuance costs	1,770	
Amortization of debt discount	613	
Deferred income taxes	376	881
Equity in net (income) losses of subsidiaries	(67,750)	55,772
Dividend from subsidiary	20,000	
Income recognized on preferred stock conversion feature	(27,910)	
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	62	(561)
Accounts payable and accrued and other current liabilities	15,697	989
Other operating	1,797	701
Net cash used in operating activities	(20,343)	(5,835)
Cash flows from investing activities:		
Proceeds from investments sold, matured or repaid	101,006	30,094
Cost of investments acquired	(121,930)	(3,989)
Capital contributions to consolidated subsidiaries	(727,162)	
Advances to consolidated subsidiaries	(49,339)	
Capital expenditures	(345)	(58)
Net cash provided by (used in) investing activities	(797,770)	26,047
Cash flows from financing activities:		
Proceeds from senior secured notes	498,459	
Proceeds from preferred stock issuance, net of issuance costs	385,973	
Debt issuance costs	(16,207)	
Other financing activities	416	

Net cash provided by financing activities	868,641	
Net increase in cash and cash equivalents	50,528	20,212
Cash and cash equivalents at beginning of period	84,262	64,050
Cash and cash equivalents at end of period	$ 134,790	$ 84,262

See accompanying Report of Independent Registered Public Accounting Firm.

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HARBINGER GROUP INC. AND SUBSIDIARIES

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1. SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Spectrum Brands Holdings, Inc.:

We have audited the accompanying consolidated statements of financial position of Spectrum Brands Holdings, Inc. and subsidiaries (the Company) as of September 30, 2011 and 2010 (Successor Company), and the related consolidated statements of operations, shareholders equity (deficit) and comprehensive income (loss), and cash flows for the years ended September 30, 2011 and September 30, 2010, the period August 31, 2009 to September 30, 2009 (Successor Company) and the period October 1, 2008 to August 30, 2009 (Predecessor Company). In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule II. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Spectrum Brands Holdings, Inc. and subsidiaries as of September 30, 2011 and 2010 (Successor Company), and the results of their operations and their cash flows for the years ended September 30, 2011 and September 30, 2010, the period August 31, 2009 to September 30, 2009 (Successor Company) and the period October 1, 2008 to August 30, 2009 (Predecessor Company) in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Predecessor Company filed a petition for reorganization under Chapter 11 of the United States Bankruptcy Code on February 3, 2009. The Company s plan of reorganization became effective and the Company emerged from bankruptcy protection on August 28, 2009. In connection with its emergence from bankruptcy, Spectrum Brands, Inc. adopted fresh-start reporting in conformity with ASC Topic 852, *Reorganizations* effective as of August 30, 2009. Accordingly, the consolidated financial information for periods beginning on or after August 30, 2009 is presented on a different basis than that for the periods prior to that date and, therefore, is not comparable.

/s/ KPMG LLP

Milwaukee, Wisconsin
December 8, 2011

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SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position
September 30, 2011 and September 30, 2010
(In thousands, except per share amounts)

	Successor Company	
	2011	**2010**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 142,414	$ 170,614
Receivables:		
Trade accounts receivable, net of allowances of $14,128 and $4,351, respectively	356,605	365,002
Other	37,678	41,445
Inventories	434,630	530,342
Deferred income taxes	28,170	35,735
Prepaid expenses and other	48,792	56,574
Total current assets	1,048,289	1,199,712
Property, plant and equipment, net	206,389	201,164
Deferred charges and other	36,824	46,352
Goodwill	610,338	600,055
Intangible assets, net	1,683,909	1,769,360
Debt issuance costs	40,957	56,961
Total assets	$ 3,626,706	$ 3,873,604
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 16,090	$ 20,710
Accounts payable	323,171	332,231
Accrued liabilities:		
Wages and benefits	70,945	93,971
Income taxes payable	31,606	37,118
Restructuring and related charges	16,187	23,793
Accrued interest	30,467	31,652
Other	118,446	123,297
Total current liabilities	606,912	662,772
Long-term debt, net of current maturities	1,535,522	1,723,057
Employee benefit obligations, net of current portion	83,802	92,725
Deferred income taxes	337,336	277,843
Other	44,637	70,828
Total liabilities	2,608,209	2,827,225

Commitments and contingencies		
Shareholders equity:		
Common stock, $.01 par value, authorized 200,000 shares; issued 52,431 and 51,101 shares; outstanding 52,226 and 51,020 shares at September 30, 2011 and September 30, 2010, respectively	525	514
Additional paid-in capital	1,374,097	1,316,461
Accumulated deficit	(336,063)	(260,892)
Accumulated other comprehensive loss	(14,446)	(7,497)
	1,024,113	1,048,586
Less treasury stock, at cost, 205 and 81 shares, respectively	(5,616)	(2,207)
Total shareholders equity	1,018,497	1,046,379
Total liabilities and shareholders equity	$ 3,626,706	$ 3,873,604

See accompanying notes to consolidated financial statements.

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SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations
(In thousands, except per share amounts)

	Successor Company			Predecessor Company
	Year Ended September 30, 2011	Year Ended September 30, 2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
	(In thousands, except per share amounts)			
Net sales	$ 3,186,916	$ 2,567,011	$ 219,888	$ 2,010,648
Cost of goods sold	2,050,208	1,638,451	155,310	1,245,640
Restructuring and related charges	7,841	7,150	178	13,189
Gross profit	1,128,867	921,410	64,400	751,819
Operating expenses:				
Selling	536,535	466,813	39,136	363,106
General and administrative	241,631	199,386	20,578	145,235
Research and development	32,901	31,013	3,027	21,391
Acquisition and integration related charges	36,603	38,452		
Restructuring and related charges	20,803	16,968	1,551	30,891
Intangible asset impairment	32,450			34,391
	900,923	752,632	64,292	595,014
Operating income	227,944	168,778	108	156,805
Interest expense	208,329	277,015	16,962	172,940
Other expense (income), net	2,491	12,300	(816)	3,320
Income (loss) from continuing operations before reorganization items and income taxes	17,124	(120,537)	(16,038)	(19,455)
Reorganization items expense (income), net		3,646	3,962	(1,142,809)
Income (loss) from continuing operations before income taxes	17,124	(124,183)	(20,000)	1,123,354
Income tax expense	92,295	63,189	51,193	22,611
(Loss) income from continuing operations	(75,171)	(187,372)	(71,193)	1,100,743
		(2,735)	408	(86,802)

(Loss) income from discontinued operations, net of tax								
Net (loss) income	$	(75,171)	$	(190,107)	$	(70,785)	$	1,013,941
Basic net (loss) income per common share:								
(Loss) income from continuing operations	$	(1.47)	$	(5.20)	$	(2.37)	$	21.45
(Loss) income from discontinued operations				(0.08)		0.01		(1.69)
Net (loss) income	$	(1.47)	$	(5.28)	$	(2.36)	$	19.76
Weighted average shares of common stock outstanding		51,092		36,000		30,000		51,306
Diluted net (loss) income per common share:								
(Loss) income from continuing operations	$	(1.47)	$	(5.20)	$	(2.37)	$	21.45
(Loss) income from discontinued operations				(0.08)		0.01		(1.69)
Net (loss) income	$	(1.47)	$	(5.28)	$	(2.36)	$	19.76
Weighted average shares of common stock and equivalents outstanding		51,092		36,000		30,000		51,306

See accompanying notes to consolidated financial statements.

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SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders Equity (Deficit) and Comprehensive Income (Loss)
(In thousands)

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive Income (Loss), Net of	Treasury	Total Shareholders Equity
	Shares	Amount	Capital	Deficit	Tax	Stock	(Deficit)
Balances at September 30, 2008, Predecessor Company	52,775	$ 692	$ 674,370	$ (1,694,915)	$ 69,445	$ (76,830)	$ (1,027,238)
Net income				1,013,941			1,013,941
Adjustment of additional minimum pension liability					(1,160)		(1,160)
Valuation allowance adjustment					5,104		5,104
Translation adjustment					(2,650)		(2,650)
Other unrealized gains and losses					9,817		9,817
Comprehensive income							1,025,052
Issuance of restricted stock	230	(1)	1				
Forfeiture of restricted stock	(82)						
Treasury shares surrendered	(185)					(61)	(61)
Amortization of unearned compensation			2,636				2,636
Cancellation of Predecessor Company common stock	(52,738)	(691)	(677,007)			76,891	(600,807)
Elimination of Predecessor Company accumulated deficit and accumulated other comprehensive income				680,974	(80,556)		600,418
Issuance of new common stock in connection with emergence from	30,000	300	724,796				725,096

Chapter 11 of the Bankruptcy Code													
Balances at August 30, 2009, Successor Company	30,000	$	300	$	724,796	$		$		$		$	725,096

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SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders Equity (Deficit) and Comprehensive Income (Loss) (Continued)
(In thousands)

	Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive Income (Loss), Net of	Treasury	Total Shareholders Equity
	Shares	Amount	Capital	Deficit	Tax	Stock	(Deficit)
Balances at August 30, 2009, Successor Company	30,000	$ 300	$ 724,796	$	$	$	$ 725,096
Net loss				(70,785)			(70,785)
Adjustment of additional minimum pension liability					576		576
Valuation allowance adjustment					(755)		(755)
Translation adjustment					5,896		5,896
Other unrealized gains and losses					851		851
Comprehensive loss							(64,217)
Balances at September 30, 2009, Successor Company	30,000	$ 300	$ 724,796	$ (70,785)	$ 6,568	$	$ 660,879
Net loss				(190,107)			(190,107)
Adjustment of additional minimum pension liability					(17,773)		(17,773)
Valuation allowance adjustment					(2,398)		(2,398)
Translation adjustment					12,596		12,596
Other unrealized gains and losses					(6,490)		(6,490)
Comprehensive income							(204,172)
Issuance of common stock	20,433	205	574,998				575,203
Issuance of restricted stock	939	9	(9)				
	(271)						

Unvested restricted stock units, not issued or outstanding							
Treasury shares surrendered	(81)					(2,207)	(2,207)
Amortization of unearned compensation			16,676				16,676
Balances at September 30, 2010, Successor Company	51,020	$ 514	$ 1,316,461	$ (260,892)	$ (7,497)	$ (2,207)	$ 1,046,379
Net loss				(75,171)			(75,171)
Adjustment of additional minimum pension liability					(4,299)		(4,299)
Valuation allowance adjustment					2,706		2,706
Translation adjustment					(10,115)		(10,115)
Other unrealized gains and losses					4,759		4,759
Comprehensive income							(82,120)
Issuance of common stock	1,150	11	29,840				29,851
Vesting of restricted stock units	180						
Treasury shares surrendered	(124)					(3,409)	(3,409)
Amortization of unearned compensation			30,389				30,389
Restricted stock units surrendered			(2,593)				(2,593)
Balances at September 30, 2011, Successor Company	52,226	$ 525	$ 1,374,097	$ (336,063)	$ (14,446)	$ (5,616)	$ 1,018,497

See accompanying notes to consolidated financial statements.

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows
(In thousands)

	Successor Company			Predecessor Company
	Year Ended September 30, 2011	Year Ended September 30, 2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Cash flows from operating activities:				
Net (loss) income	$ (75,171)	$ (190,107)	$ (70,785)	$ 1,013,941
(Loss) income from discontinued operations		(2,735)	408	(86,802)
(Loss) income from continuing operations	(75,171)	(187,372)	(71,193)	1,100,743
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Depreciation	47,065	54,822	5,158	36,745
Amortization of intangibles	57,695	45,920	3,513	19,099
Amortization of debt issuance costs	13,198	9,030	314	13,338
Amortization of unearned restricted stock compensation	30,389	16,676		2,636
Intangible asset impairment	32,450			34,391
Non-cash goodwill adjustment due to release of valuation allowance			47,443	
Fresh-start reporting adjustments				(1,087,566)
Gain on cancelation of debt				(146,555)
Administrative related reorganization items		3,646	3,962	91,312
Payments for administrative related reorganization items		(47,173)		
Deferred income taxes	24,374	51,731	3,498	22,046
Non-cash increase to cost of goods sold due to fresh-start reporting inventory valuation		34,865		
Non-cash interest expense on 12% Notes		24,555		
Write off of unamortized discount upon refinancing Term Loan	8,950	59,162		
Write off of debt issuance costs upon refinancing Term Loan	15,420	6,551		2,358
Non-cash restructuring and related charges	15,143	16,359	1,299	28,368
Non-cash debt accretion	4,773	18,302	2,861	
Changes in assets and liabilities:				
Accounts receivable	12,969	12,702	5,699	68,203
Inventories	96,406	(66,127)	48,995	9,004

Prepaid expenses and other current assets	815	2,025	1,256	5,131
Accounts payable and accrued liabilities	(60,505)	86,497	22,438	(80,463)
Other assets and liabilities	3,418	(73,612)	(6,565)	(88,996)
Net cash provided by operating activities of continuing operations	227,389	68,559	68,678	29,794
Net cash (used) provided by operating activities of discontinued operations		(11,221)	6,273	(28,187)
Net cash provided by operating activities	227,389	57,338	74,951	1,607
Cash flows from investing activities:				
Purchases of property, plant and equipment	(36,160)	(40,316)	(2,718)	(8,066)
Proceeds from sale of property, plant and equipment	243	388	71	379
Acquisitions, net of cash acquired	(11,053)	(2,577)		(8,460)
Proceeds from sale of assets held for sale	6,997			
Other investing activity	(5,723)			
Net cash used by investing activities of continuing operations	(45,696)	(42,505)	(2,647)	(16,147)
Net cash used by investing activities of discontinued operations				(855)
Net cash used by investing activities	(45,696)	(42,505)	(2,647)	(17,002)
Cash flows from financing activities:				
Net proceeds from equity offering	29,851			
Proceeds from new Senior Credit Facilities, excluding new ABL Revolving Credit Facility, net of discount		1,474,755		
Payment of senior credit facilities, excluding old ABL revolving credit facility	(224,763)	(1,278,760)		
Expensed prepayment penalty of term loan facility refinanced in Fiscal 2011	(5,653)			
Reduction of other debt		(8,456)	(4,603)	(120,583)
Proceeds from other debt financing	5,788	13,688		
Debt issuance costs, net of refund	(12,616)	(55,024)	(287)	(17,199)
Extinguished ABL Revolving Credit Facility		(33,225)	(31,775)	65,000
(Payments of) proceeds on supplemental loan		(45,000)		45,000
Treasury stock purchases	(3,409)	(2,207)		(61)
Net cash (used) provided by financing activities	(210,802)	65,771	(36,665)	(27,843)
Effect of exchange rate changes on cash and cash equivalents due to Venezuela hyperinflation		(8,048)		
Effect of exchange rate changes on cash and cash equivalents	909	258	1,002	(376)
Net (decrease) increase in cash and cash equivalents	(28,200)	72,814	36,641	(43,614)
Cash and cash equivalents, beginning of period	170,614	97,800	61,159	104,773

Cash and cash equivalents, end of period	$	142,414	$	170,614	$	97,800	$	61,159
Supplemental disclosure of cash flow information:								
Cash paid for interest	$	171,577	$	136,429	$	5,828	$	158,380
Cash paid for income taxes, net		37,171		36,951		1,336		18,768

See accompanying notes to consolidated financial statements.

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SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)

(1) Description of Business

Spectrum Brands Holdings, Inc., a Delaware corporation (SB Holdings or the Company), is a global branded consumer products company and was created in connection with the combination of Spectrum Brands, Inc. (Spectrum Brands), a global branded consumer products company, and Russell Hobbs, Inc. (Russell Hobbs), a global branded small appliance company, to form a new combined company (the Merger). The Merger was consummated on June 16, 2010. As a result of the Merger, both Spectrum Brands and Russell Hobbs became wholly-owned subsidiaries of SB Holdings. Russell Hobbs was subsequently merged into Spectrum Brands. SB Holdings trades on the New York Stock Exchange under the symbol SPB.

On February 3, 2009, Spectrum Brands, Inc. and its wholly owned United States (U.S.) subsidiaries (collectively, the Debtors) filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code (the Bankruptcy Code), in the U.S. Bankruptcy Court for the Western District of Texas (the Bankruptcy Court). On August 28, 2009 (the Effective Date), the Debtors emerged from Chapter 11 of the Bankruptcy Code. Effective as of the Effective Date and pursuant to the Debtors confirmed plan of reorganization and in accordance with Accounting Standard Codification (ASC) Topic 852: *Reorganizations,* the Company determined that all conditions required for the adoption of fresh-start reporting were met upon emergence from Chapter 11 of the Bankruptcy Code on the Effective Date. However in light of the proximity of that date to the Company s August accounting period close, which was August 30, 2009, the Company elected to adopt a convenience date of August 30, 2009 for recording fresh-start reporting.

Unless the context indicates otherwise, the term Company is used to refer to both Spectrum Brands and its subsidiaries prior to the Merger and SB Holdings and its subsidiaries subsequent to the Merger. The term Predecessor Company refers only to the Company prior to the Effective Date and the term Successor Company refers to Spectrum Brands or the Company subsequent to the Effective Date.

The Company s operations include the worldwide manufacturing and marketing of alkaline, zinc carbon and hearing aid batteries, as well as aquariums and aquatic health supplies and the designing and marketing of rechargeable batteries, battery-powered lighting products, electric shavers and accessories, grooming products and hair care appliances. The Company s operations also include the manufacturing and marketing of specialty pet supplies. The Company also manufactures and markets herbicides, insecticides and insect repellents in North America. The Company also designs, markets and distributes a broad range of branded small appliances and personal care products. The Company s operations utilize manufacturing and product development facilities located in the U.S., Europe, Latin America and Asia.

The Company sells its products in approximately 130 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers and enjoys name recognition in its 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, Spectracide, Cutter, Black & Decker, George Foreman, Russell Hobbs, Farberware and various other brands.

The Company s global branded consumer products have positions in seven major product categories: consumer batteries; small appliances; pet supplies; electric shaving and grooming; electric personal care; portable lighting; and home and garden controls. Effective October 1, 2010, the Company s chief operating decision-maker manages the businesses of the Company in three vertically integrated, product-focused reporting segments: (i) Global Batteries &

Appliances, which consists of the Company s worldwide battery, electric shaving and grooming, electric personal care, portable lighting business and small appliances primarily in the kitchen and home product categories (Global Batteries & Appliances); (ii) Global Pet Supplies, which consists of the Company s worldwide pet supplies business (Global Pet Supplies); and (iii) Home and Garden Business, which consists of the Company s home and garden and insect control business (the Home and Garden Business). The current reporting segment structure reflects the combination of the former Global Batteries & Personal Care segment

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SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share amounts)

(Global Batteries & Personal Care), which consisted of the worldwide battery, electric shaving and grooming, electric personal care and portable lighting business, with substantially all of the former Small Appliances segment (Small Appliances), which consisted of the Russell Hobbs business acquired on June 16, 2010, to form the Global Batteries & Appliances segment. In addition, certain pest control and pet products included in the former Small Appliances segment have been reclassified into the Home and Garden Business and Global Pet Supplies segments, respectively. Management reviews the performance of the Company based on these segments. The presentation of all historical segment data herein has been changed to conform to this segment reporting structure, which reflects the manner in which the Company s management monitors performance and allocates resources. (For information pertaining to our business segments, see Note 11, Segment Information).

On June 28, 2011 the Company filed a Form S-3 registration statement with the U.S. Securities and Exchange Commission (SEC) under which 1,150 shares of its common stock and 6,320 shares of the Company s common stock held by Harbinger Capital Partners Master Fund I, Ltd. (the Selling Stockholder) were offered to the public. The registration statement was declared effective on July 14, 2011, and at the closing of the offering, the Company received net proceeds from the sale of the 1,150 shares, after underwriting discounts and offering expenses, of approximately $29,851. The Company did not receive any proceeds from the sale of the common stock by the Selling Stockholder. SB Holdings expects to use the net proceeds of the sale of common shares for general corporate purposes, which may include, among other things, working capital needs, the refinancing of existing indebtedness, the expansion of its business and acquisitions.

(2) Significant Accounting Policies and Practices

(a) Principles of Consolidation and Fiscal Year End

The consolidated financial statements include the financial statements of Spectrum Brands Holdings, Inc. and its subsidiaries and are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). All intercompany transactions have been eliminated. The Company s fiscal year ends September 30. References herein to Fiscal 2011, 2010 and 2009 refer to the fiscal years ended September 30, 2011, 2010 and 2009, respectively.

(b) Revenue Recognition

The Company recognizes revenue from product sales generally upon delivery to the customer or the shipping point in situations where the customer picks up the product or where delivery terms so stipulate. This represents the point at which title and all risks and rewards of ownership of the product are passed, provided that: there are no uncertainties regarding customer acceptance; there is persuasive evidence that an arrangement exists; the price to the buyer is fixed or determinable; and collectibility is deemed reasonably assured. The Company is generally not obligated to allow for, and its general policy is not to accept, product returns for battery sales. The Company does accept returns in specific instances related to its shaving, grooming, personal care, home and garden, small appliances and pet products. The provision for customer returns is based on historical sales and returns and other relevant information. The Company estimates and accrues the cost of returns, which are treated as a reduction of Net sales.

The Company enters into various promotional arrangements, primarily with retail customers, including arrangements entitling such retailers to cash rebates from the Company based on the level of their purchases, which require the Company to estimate and accrue the estimated costs of the promotional programs. These costs are treated as a

reduction of Net sales.

The Company also enters into promotional arrangements that target the ultimate consumer. The costs associated with such arrangements are treated as either a reduction of Net sales or an increase of Cost of goods sold, based on the type of promotional program. The income statement presentation of the Company s promotional arrangements complies with ASC Topic 605: *Revenue Recognition.* For all types of promotional arrangements and programs,

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share amounts)

the Company monitors its commitments and uses various measures, including past experience, to determine amounts to be recorded for the estimate of the earned, but unpaid, promotional costs. The terms of the Company s customer-related promotional arrangements and programs are tailored to each customer and are documented through written contracts, correspondence or other communications with the individual customers.

The Company also enters into various arrangements, primarily with retail customers, which require the Company to make upfront cash, or slotting payments, in order to secure the right to distribute through such customers. The Company capitalizes slotting payments; provided the payments are supported by a time or volume based arrangement with the retailer, and amortizes the associated payment over the appropriate time or volume based term of the arrangement. The amortization of slotting payments is treated as a reduction in Net sales and a corresponding asset is reported in Deferred charges and other in the accompanying Consolidated Statements of Financial Position.

(c) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(d) Cash Equivalents

For purposes of the accompanying Consolidated Statements of Cash Flows, the Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

(e) Concentrations of Credit Risk, Major Customers and Employees

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

The Company has a broad range of customers including many large retail outlet chains, one of which accounts for a significant percentage of its sales volume. This major customer represented approximately 24%, 22% and 23% of the Successor Company s Net sales during Fiscal 2011, Fiscal 2010 and the period from August 31, 2009 through September 30, 2009, respectively, and approximately 23% of Net sales during the Predecessor Company s period from October 1, 2008 through August 30, 2009. This major customer also represented approximately 16% and 15% of the Successor Company s Trade account receivables, net as of September 30, 2011 and September 30, 2010, respectively.

Approximately 44%, 44% and 48% of the Successor Company s Net sales during Fiscal 2011, Fiscal 2010 and the period from August 31, 2009 through September 30, 2009, respectively, occurred outside of the United States and approximately 42% of the Predecessor Company s Net sales during the period from October 1, 2008 through

August 30, 2009, occurred outside of the United States. These sales and related receivables are subject to varying degrees of credit, currency, and political and economic risk. The Company monitors these risks and makes appropriate provisions for collectibility based on an assessment of the risks present.

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share amounts)

(f) Displays and Fixtures

Temporary displays are generally disposable cardboard displays shipped to customers to facilitate display of the Company s products. Temporary displays are generally disposed of after a single use by the customer.

Permanent fixtures are more permanent in nature, are generally made from wire or other longer-lived materials, and are shipped to customers for use in displaying the Company s products. These permanent fixtures are restocked with the Company s product multiple times over the fixture s useful life.

The costs of both temporary and permanent displays are capitalized as a prepaid asset and are included in Prepaid expenses and other in the accompanying Consolidated Statements of Financial Position. The costs of temporary displays are expensed in the period in which they are shipped to customers and the costs of permanent fixtures are amortized over an estimated useful life of one to two years from the date they are shipped to customers and are reflected in Deferred charges and other in the accompanying Consolidated Statements of Financial Position.

(g) Inventories

The Company s inventories are valued at the lower of cost or market. Cost of inventories is determined using the first-in, first-out (FIFO) method.

(h) Property, Plant and Equipment

Property, plant and equipment are recorded at cost or at fair value if acquired in a purchase business combination. Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Depreciable lives by major classification are as follows:

Building and improvements	20-40 years
Machinery, equipment and other	2-15 years

Plant and equipment held under capital leases are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company evaluates recoverability of assets to be held and used by comparing the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(i) Intangible Assets

Intangible assets are recorded at cost or at fair value if acquired in a purchase business combination. In connection with fresh-start reporting, Intangible Assets were recorded at their estimated fair value on August 30, 2009. Customer

lists, proprietary technology and certain trade name intangibles are amortized, using the straight-line method, over their estimated useful lives of approximately 4 to 20 years. Excess of cost over fair value of net assets acquired (goodwill) and indefinite-lived intangible assets (certain trade name intangibles) are not amortized. Goodwill is tested for impairment at least annually, at the reporting unit level with such groupings being consistent with the Company s reportable segments. If impairment is indicated, a write-down to fair value (normally measured by discounting estimated future cash flows) is recorded. Indefinite-lived trade name intangibles are tested for impairment at least annually by comparing the fair value, determined using a relief from royalty methodology, with the carrying value. Any excess of carrying value over fair value is recognized as an impairment loss in income from operations.

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share amounts)

ASC Topic 350: *Intangibles-Goodwill and Other,* (*ASC 350*) requires that goodwill and indefinite-lived intangible assets be tested for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. The Company s management uses its judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as unexpected adverse business conditions, economic factors, unanticipated technological change or competitive activities, loss of key personnel, and acts by governments and courts may signal that an asset has become impaired.

During Fiscal 2011, Fiscal 2010 and the period from October 1, 2008 through August 30, 2009, the Company s goodwill and trade name intangibles were tested for impairment as of the Company s August financial period end, the Company s annual testing date, as well as in certain interim periods where an event or circumstance occurred that indicated an impairment loss may have been incurred.

Intangibles with Indefinite Lives

In accordance with ASC 350, the Company conducts impairment testing on the Company s goodwill. To determine fair value during Fiscal 2011, Fiscal 2010 and the period from October 1, 2008 through August 30, 2009 the Company used the discounted estimated future cash flows methodology, third party valuations and negotiated sales prices. Assumptions critical to the Company s fair value estimates under the discounted estimated future cash flows methodology are: (i) the present value factors used in determining the fair value of the reporting units and trade names; (ii) projected average revenue growth rates used in the reporting unit; and (iii) projected long-term growth rates used in the derivation of terminal year values. These and other assumptions are impacted by economic conditions and expectations of management and will change in the future based on period specific facts and circumstances. The Company also tested the aggregate estimated fair value of its reporting units for reasonableness by comparison to the total market capitalization of the Company, which includes both its equity and debt securities.

In addition, in accordance with ASC 350, as part of the Company s annual impairment testing, the Company tested its indefinite-lived trade name intangible assets for impairment by comparing the carrying amount of such trade names to their respective fair values. Fair value was determined using a relief from royalty methodology. Assumptions critical to the Company s fair value estimates under the relief from royalty methodology were: (i) royalty rates, (ii) projected average revenue growth rates, and (iii) applicable discount rates.

A triggering event occurred in Fiscal 2011 which required the Company to test its indefinite-lived intangible assets for impairment between annual impairment dates. As more fully discussed above in Note 1, Description of Business, on October 1, 2010, the Company realigned its operating segments into three vertically integrated, product-focused reporting segments. The realignment of the Company s operating segments constituted a triggering event for impairment testing. In connection with this interim test, the Company compared the fair value of its reporting segments to their carrying amounts both before and after the change in segment composition, and determined the fair values were in excess of their carrying amounts and, accordingly, no further testing of goodwill was required. The Company also tested the recoverability of its identified indefinite-lived intangibles in connection with the realignment of its operating segments and concluded that the fair values of these assets exceeded their carrying values.

In connection with the Successor Company s annual goodwill impairment testing performed during Fiscal 2011 and Fiscal 2010 the first step of such testing indicated that the fair value of the Company s reporting segments were in excess of their carrying amounts and, accordingly, no further testing of goodwill was required.

In connection with the Predecessor Company s annual goodwill impairment testing performed during Fiscal 2009, which was completed by the Predecessor Company before applying fresh-start reporting, the first step of such testing indicated that the fair value of the Predecessor Company s reporting segments were in excess of their carrying amounts and, accordingly, no further testing of goodwill was required.

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share amounts)

In connection with its annual impairment testing of indefinite-lived intangible assets during Fiscal 2011 the Company concluded that the fair values of certain trade name intangible assets were less than the carrying amounts of those assets. As a result, during Fiscal 2011 the Company recorded a non-cash pretax intangible asset impairment charge of approximately $32,450, which was equal to the excess of the carrying amounts of the intangible assets over the fair value of such assets. During Fiscal 2010 the Company concluded that the fair value of its intangible assets exceeded their carrying value.

During the period from October 1, 2008 through August 30, 2009, in connection with its annual impairment testing, the Company concluded that the fair values of certain trade name intangible assets were less than the carrying amounts of those assets. As a result, during the period from October 1, 2008 through August 30, 2009, the Company recorded non-cash pretax impairment charges of approximately $34,391, representing the excess of the carrying amounts of the intangible assets over the fair value of such assets.

The non-cash impairments of trade name intangible assets during Fiscal 2011 and during the period from October 1, 2008 through August 30, 2009, have been recorded as a separate component of Operating expenses.

The above impairments of trade name intangible assets were primarily attributed to lower current and forecasted profits, reflecting more conservative growth rates versus those originally assumed by the Company at the time of acquisition or upon adoption of fresh start reporting.

Intangibles with Definite or Estimable Useful Lives

The Company assesses the recoverability of intangible assets with definite or estimable useful lives whenever an event or circumstance occurs that indicates an impairment loss may have been incurred. The Company assesses the recoverability of these intangible assets by determining whether their carrying value can be recovered through projected undiscounted future cash flows. If projected undiscounted future cash flows indicate that the carrying value of the assets will not be recovered, an adjustment would be made to reduce the carrying value to an amount equal to estimated fair value determined based on projected future cash flows discounted at the Company s incremental borrowing rate. The cash flow projections used in estimating fair value are based on historical performance and management s estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions.

Impairment reviews are conducted at the judgment of management when it believes that a change in circumstances in the business or external factors warrants a review. Circumstances such as the discontinuation of a product or product line, a sudden or consistent decline in the sales forecast for a product, changes in technology or in the way an asset is being used, a history of operating or cash flow losses, or an adverse change in legal factors or in the business climate, among others, may trigger an impairment review.

(j) Debt Issuance Costs

Debt issuance costs are capitalized and amortized to interest expense using the effective interest method over the lives of the related debt agreements.

(k) Accounts Payable

Included in accounts payable are book overdrafts, net of deposits on hand, on disbursement accounts that are replenished when checks are presented for payment.

(l) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes enactment date. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Accrued interest expense and penalties related to uncertain tax positions are recorded in Income tax expense.

(m) Foreign Currency Translation

Local currencies are considered the functional currencies for most of the Company s operations outside the United States. Assets and liabilities of the Company s foreign subsidiaries are translated at the rate of exchange existing at year-end, with revenues, expenses, and cash flows translated at the average of the monthly exchange rates. Adjustments resulting from translation of the financial statements are recorded as a component of Accumulated other comprehensive income (loss) (AOCI). Also included in AOCI are the effects of exchange rate changes on intercompany balances of a long-term nature.

As of September 30, 2011 and September 30, 2010, accumulated gains related to foreign currency translation adjustments of $8,377 and $18,492, respectively, were reflected in the accompanying Consolidated Statements of Financial Position in AOCI.

Foreign currency transaction gains and losses related to assets and liabilities that are denominated in a currency other than the functional currency are reported in the consolidate statements of operations in the period they occur. Successor Company exchange losses (gains) on foreign currency transactions aggregating $3,370, $13,336 and $(726) for Fiscal 2011, Fiscal 2010 and the period from August 31, 2009 through September 30, 2009, respectively, are included in Other expense (income), net, in the accompanying Consolidated Statements of Operations. Predecessor Company exchange losses on foreign currency transactions aggregating $4,440 for the period from October 1, 2008 through August 30, 2009, are included in Other expense (income), net, in the accompanying Consolidated Statements of Operations.

(n) Shipping and Handling Costs

The Successor Company incurred shipping and handling costs of $201,480, $161,148 and $12,866 during Fiscal 2011, Fiscal 2010 and the period from August 31, 2009 through September 30, 2009, respectively. The Predecessor Company incurred shipping and handling costs of $135,511 during the period from October 1, 2008 through August 30, 2009. Shipping and handling costs, which are included in Selling expenses in the accompanying Consolidated Statements of Operations, include costs incurred with third-party carriers to transport products to customers and salaries and overhead costs related to activities to prepare the Company s products for shipment at the Company s distribution facilities.

(o) Advertising Costs

The Successor Company incurred advertising costs of $30,673, $37,520 and $3,166 during Fiscal 2011, Fiscal 2010 and the period from August 31, 2009 through September 30, 2009, respectively. The Predecessor Company incurred expenses for advertising of $25,813 during the period from October 1, 2008 through August 30, 2009. Such advertising costs are included in Selling expenses in the accompanying Consolidated Statements of Operations and include agency fees and other costs to create advertisements, as well as costs paid to third parties to print or broadcast the Company s advertisements.

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(p) Research and Development Costs

Research and development costs are charged to expense in the period they are incurred.

(q) Net (Loss) Income Per Common Share

Basic net (loss) income per common share is computed by dividing net (loss) income available to common shareholders by the weighted-average number of common shares outstanding for the period. Basic net (loss) income per common share does not consider the effect of dilutive common stock equivalents. As long as their effect is not anti-dilutive, diluted net (loss) income per common share reflects the dilution that would occur if employee stock options and restricted stock awards were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the net (loss) income of the entity. The computation of diluted net (loss) income per common share uses the treasury stock method to reflect dilution. The difference between the number of shares used in the calculations of basic and diluted net (loss) income per share is due to the effects of restricted stock and assumed conversion of employee stock options awards.

The Predecessor Company common stock was cancelled as a result of the Company s emergence from Chapter 11 of the Bankruptcy Code on the Effective Date. The Successor Company common stock began trading on September 2, 2009. As such, the earnings per share information for the Predecessor Company is not meaningful to shareholders of the Successor Company s common shares, or to potential investors in such common shares.

Net (loss) income per common share is calculated based upon the following shares:

	Successor Company			Predecessor Company
	September 30, 2011	September 30, 2010	September 30, 2009	August 30, 2009
Basic	51,092	36,000	30,000	51,306
Effect of restricted stock and assumed conversion of stock options				
Diluted	51,092	36,000	30,000	51,306

The Successor Company for Fiscal 2011, Fiscal 2010 and the period from August 31, 2009 through September 30, 2009, and the Predecessor Company for the period from October 1, 2008 through August 30, 2009 has not assumed the exercise of common stock equivalents as the impact would be antidilutive.

On June 16, 2010, the Company issued 20,433 shares of its common stock in conjunction with the Merger. Additionally, all shares of its wholly owned subsidiary Spectrum Brands, were converted to shares of SB Holdings on June 16, 2010. On July 20, 2011, the Company issued an additional 1,150 shares of its common stock. (See also, Note 15, Acquisition, for a more complete discussion of the Merger.)

(r) Environmental Expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed or capitalized as appropriate. The Company determines its liability for environmental matters on a site-by-site basis and records a liability at the time when it is probable that a liability has been incurred and such liability can be reasonably estimated. The estimated liability is not reduced for possible recoveries from insurance carriers. Estimated environmental remediation expenditures are included in the determination of the net realizable value recorded for assets held for sale.

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(s) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

(t) Comprehensive Income

Comprehensive income includes foreign currency translation gains and losses on assets and liabilities of foreign subsidiaries, effects of exchange rate changes on intercompany balances of a long-term nature and transactions designated as a hedge of a net investment in a foreign subsidiary, deferred gains and losses on derivative financial instruments designated as cash flow hedges and additional minimum pension liabilities associated with the Company s pension plans. Except for gains and losses resulting from exchange rate changes on intercompany balances of a long-term nature, the Company does not provide income taxes on currency translation adjustments, as earnings from international subsidiaries are considered to be permanently reinvested.

Amounts recorded in AOCI on the accompanying Consolidated Statements of Shareholders Equity (Deficit) and Comprehensive Income (Loss) for Fiscal 2011, Fiscal 2010 and Fiscal 2009 are net of the following tax (benefit) expense amounts:

	Pension Adjustment	Cash Flow Hedges	Translation Adjustment	Total
2011 (Successor Company)	$ (5,566)	$ 3,002	$ (2,250)	$ (4,814)
2010 (Successor Company).....	$ (6,141)	$ (2,659)	$ (1,566)	$ (10,366)
2009 (Successor Company)	$ 247	$ 16	$ 319	$ 582
2009 (Predecessor Company)	$ (497)	$ 5,286	$ (40)	$ 4,749

(u) Stock Compensation

The Company measures the cost of its stock-based compensation plans based on the fair value of its employee stock awards at the date of grant and recognizes these costs over the requisite service period of the awards.

In September 2009, the Successor Company s board of directors (the Board) adopted the 2009 Spectrum Brands Inc. Incentive Plan (the 2009 Plan). In conjunction with the Merger the 2009 Plan was assumed by SB Holdings. Prior to October 21, 2010, up to 3,333 shares of common stock, net of forfeitures and cancellations, could have been issued under the 2009 Plan. After October 21, 2010, no further awards may be made under the 2009 Plan.

In conjunction with the Merger, the Company adopted the Spectrum Brands Holdings, Inc. 2007 Omnibus Equity Award Plan (formerly known as the Russell Hobbs Inc. 2007 Omnibus Equity Award Plan, as amended on June 24, 2008) (the 2007 RH Plan). Prior to October 21, 2010, up to 600 shares of common stock, net of forfeitures and cancellations, could have been issued under the RH Plan. After October 21, 2010, no further awards may be made under the 2007 RH Plan.

On October 21, 2010, the Company s Board of Directors adopted the Spectrum Brands Holdings, Inc. 2011 Omnibus Equity Award Plan (2011 Plan), which was approved at the Annual Meeting of Stockholders on March 1, 2011. Up to 4,626 shares of common stock of the Company, net of cancellations, may be issued under the 2011 Plan.

Total stock compensation expense associated with restricted stock awards recognized by the Successor Company during Fiscal 2011 was $30,389 or $19,753, net of taxes. The amounts before tax are included in General and administrative expenses in the accompanying Consolidated Statements of Operations, of which $467 or $304 net of taxes, related to the accelerated vesting of certain awards to terminated employees.

Total stock compensation expense associated with restricted stock awards recognized by the Successor Company during Fiscal 2010 was $16,676 or $10,839, net of taxes. The amounts before tax are included in General and

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

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administrative expenses and Restructuring and related charges in the accompanying Consolidated Statements of Operations, of which $2,141 or $1,392 net of taxes, was included in Restructuring and related charges primarily related to the accelerated vesting of certain awards to terminated employees. The Successor Company recorded no stock compensation expense during the period from August 31, 2009 through September 30, 2009.

Total stock compensation expense associated with both stock options and restricted stock awards recognized by the Predecessor Company during the period from October 1, 2008 through August 30, 2009 was $2,636 or $1,642, net of taxes. The amounts before tax are included in General and administrative expenses in the accompanying Consolidated Statements of Operations.

The Successor Company granted approximately 1,674 shares of restricted stock during Fiscal 2011. Of these grants, 93 restricted stock units are time-based and vest over a period ranging from one year to three years. The remaining 1,581 shares are restricted stock units that are both performance and time-based and vest as follows: (i) 699 stock units vest over a one year performance based period followed by a one year time-based period and (ii) 882 stock units vest over a two year performance based period followed by a one year time-based period. The total market value of the restricted shares on the date of the grant was approximately $48,530.

The Successor Company granted approximately 939 shares of restricted stock during Fiscal 2010. Of these grants, 271 restricted stock units were granted in conjunction with the Merger and are time-based and vest over a one year period. The remaining 668 shares are restricted stock grants that are time based and vest as follows: (i) 18 shares vest over a one year period; (ii) 611 shares vest over a two year period; and (iii) 39 shares vest over a three year period. The total market value of the restricted shares on the date of the grant was approximately $23,299.

The fair value of restricted stock is determined based on the market price of the Company s shares on the grant date. A summary of the status of the Successor Company s non-vested restricted stock awards and restricted stock units as of September 30, 2011 is as follows:

Restricted Stock Awards	**Shares**	**Weighted Average Grant Date Fair Value**	**Fair Value at Grant Date**
Restricted stock awards at September 30, 2009		$	$
Granted	668	23.43	15,648
Vested	(222)	23.15	(5,140)
Restricted stock awards at September 30, 2010	446	$ 23.56	$ 10,508
Vested	(323)	23.32	(7,531)
Restricted stock awards at September 30, 2011	123	$ 24.20	$ 2,977

Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value	Fair Value at Grant Date
Restricted stock units at September 30, 2009		$	$
Granted	271	28.23	7,651
Vested	(22)	28.32	(623)
Restricted stock units at September 30, 2010	249	$ 28.22	$ 7,028
Granted	1,674	29.00	48,530
Forfeited	(43)	29.46	(1,267)
Vested	(235)	28.23	(6,635)
Restricted stock units at September 30, 2011	1,645	$ 28.97	$ 47,656

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(v) Restructuring and Related Charges

Restructuring charges are recognized and measured according to the provisions of ASC Topic 420: *Exit or Disposal Cost Obligations,* (ASC 420). Under ASC 420, restructuring charges include, but are not limited to, termination and related costs consisting primarily of one-time termination benefits such as severance costs and retention bonuses, and contract termination costs consisting primarily of lease termination costs. Related charges, as defined by the Company, include, but are not limited to, other costs directly associated with exit and integration activities, including impairment of property and other assets, departmental costs of full-time incremental integration employees, and any other items related to the exit or integration activities. Costs for such activities are estimated by management after evaluating detailed analyses of the cost to be incurred. The Company presents restructuring and related charges on a combined basis. (See also Note 14, Restructuring and Related Charges, for a more complete discussion of restructuring initiatives and related costs).

(w) Acquisition and Integration Related Charges

Acquisition and integration related charges reflected in Operating expenses include, but are not limited to transaction costs such as banking, legal, accounting and other professional fees directly related to the acquisition, termination and related costs for transitional and certain other employees, integration related professional fees and other post business combination expenses associated with mergers and acquisitions.

The following table summarizes acquisition and integration related charges incurred by the Company during Fiscal 2011 and Fiscal 2010 associated with the Merger:

	2011	2010
Integration costs	$ 23,084	$ 3,777
Employee termination charges	8,105	9,713
Legal and professional fees	4,883	24,962
Total Acquisition and integration related charges	$ 36,072	$ 38,452

Additionally, the Company incurred $210 of legal and professional fees and integration costs associated with the acquisition of Seed Resources, LLC (Seed Resources) and $321 of other acquisition and integration costs during Fiscal 2011. (See Note 15, Acquisitions, for additional information on the Seed Resources acquisition.)

(x) Reorganization Items

Subsequent to the date of the Bankruptcy Filing (the Petition Date), the Company s financial statements are prepared in accordance with ASC 852. ASC 852 does not change the application of GAAP in the preparation of the Company s consolidated financial statements. However, ASC 852 does require that financial statements, for periods including and subsequent to the filing of a Chapter 11 petition distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. In accordance with ASC 852, the Company has done

the following:

- On the accompanying Consolidated Statements of Operations, distinguished transactions and events that are directly associated with the reorganization from the ongoing operations of the business; and

- On the accompanying Consolidated Statements of Cash Flows, separately disclosed Reorganization items expense (income), net, consisting of the following: (i) Fresh-start reporting adjustments; (ii) Gain on cancelation of debt; and (iii) Administrative related reorganization items.

Reorganization items are presented separately in the accompanying Consolidated Statements of Operations and represent amounts that the Company has identified as directly relating to the bankruptcy cases. Reorganization

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items expense (income), net during Fiscal 2010 and during the period from August 31, 2009 through September 30, 2009 and the period from October 1, 2008 through August 30, 2009 are summarized as follows:

	Successor Company		Predecessor Company
	Year Ended September 30, 2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Legal and professional fees	$ 3,536	$ 3,962	$ 74,624
Deferred financing costs			10,668
Provision for rejected leases	110		6,020
Administrative related reorganization items	$ 3,646	$ 3,962	$ 91,312
Gain on cancellation of debt			(146,555)
Fresh-start reporting adjustments			(1,087,566)
Reorganization items expense (income), net	$ 3,646	$ 3,962	$ (1,142,809)

The Company did not recognize any reorganization expenses during Fiscal 2011.

(3) Inventory

Inventories consist of the following:

	September 30, 2011	September 30, 2010
Raw materials	$ 59,928	$ 62,857
Work-in-process	25,465	28,239
Finished goods	349,237	439,246
	$ 434,630	$ 530,342

(4) Property, Plant and Equipment

Property, plant and equipment consist of the following:

	September 30,	
	2011	2010
Land, buildings and improvements	$ 101,303	$ 79,935
Machinery, equipment and other	202,309	157,172
Construction in progress	10,134	24,037
	313,746	261,144
Less accumulated depreciation	107,357	59,980
	$ 206,389	$ 201,164

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

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(5) Goodwill and Intangible Assets

Intangible assets consist of the following:

	Global Batteries & Appliances	Global Pet Supplies	Home and Garden Business	Total
Goodwill:				
Balance at September 30, 2009	$ 152,293	$ 160,248	$ 170,807	$ 483,348
Additions due to Russell Hobbs Merger	116,607	2,629	843	120,079
Effect of translation	(480)	(2,892)		(3,372)
Balance at September 30, 2010	$ 268,420	$ 159,985	$ 171,650	$ 600,055
Additions		10,029	255	10,284
Effect of translation	(272)	271		(1)
Balance at September 30, 2011	$ 268,148	$ 170,285	$ 171,905	$ 610,338
Intangible Assets:				
Trade names Not Subject to Amortization				
Balance at September 30, 2009	$ 401,983	$ 212,253	$ 76,000	$ 690,236
Additions due to Russell Hobbs Merger	164,730	6,200		170,930
Effect of translation	3,232	(6,920)		(3,688)
Balance at September 30, 2010	$ 569,945	$ 211,533	$ 76,000	$ 857,478
Additions		2,630	150	2,780
Intangible asset impairment	(23,200)	(8,600)	(650)	(32,450)
Effect of translation	(941)	(72)		(1,013)
Balance at September 30, 2011	$ 545,804	$ 205,491	$ 75,500	$ 826,795
Intangible Assets Subject to Amortization				
Balance at September 30, 2009, net	$ 354,433	$ 245,005	$ 172,271	$ 771,709
Additions due to Russell Hobbs Merger	186,508	4,100	1,789	192,397
Amortization during period	(22,189)	(14,981)	(8,750)	(45,920)
Effect of translation	(2,428)	(3,876)		(6,304)
Balance at September 30, 2010, net	$ 516,324	$ 230,248	$ 165,310	$ 911,882
Additions		4,193		4,193
Amortization during period	(33,184)	(15,599)	(8,912)	(57,695)

Effect of translation	(1,667)	401		(1,266)
Balance at September 30, 2011, net	$ 481,473	$ 219,243	$ 156,398	$ 857,114
Total Intangible Assets, net at September 30, 2011	$ 1,027,277	$ 424,734	$ 231,898	$ 1,683,909

Intangible assets subject to amortization include proprietary technology, customer relationships and certain trade names. The carrying value of technology assets was $58,170, net of accumulated amortization of $13,635 at September 30, 2011 and $60,792, net of accumulated amortization of $6,305 at September 30, 2010. The Company s trade names subject to amortization relate to intangible assets recognizes as a result of the valuation under fresh-start reporting and in connection with the Merger with Russell Hobbs. The carrying value of these trade names was $133,380, net of accumulated amortization of $16,320 at September 30, 2011

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and $145,939, net of accumulated amortization of $3,750 at September 30, 2010. Remaining intangible assets subject to amortization include customer relationship intangibles. The carrying value of customer relationships was $665,564, net of accumulated amortization of $73,373 at September 30, 2011 and $705,151, net of accumulated amortization of $35,865 at September 30, 2010. The useful life of the Company s intangible assets subject to amortization are 4 to 8 years for proprietary technology assets related to the Global Pet Supplies segment, 9 to 17 years for proprietary technology assets associated with the Global Batteries & Appliances segment, 15 to 20 years for customer relationships of Global Batteries & Appliances, 20 years for customer relationships of the Home and Garden Business and Global Pet Supplies, 12 years for a trade name within the Global Batteries & Appliances segment and 4 years for a trade name within the Home and Garden Business segment.

ASC 350 requires companies to test goodwill and indefinite-lived intangible assets for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have incurred. During Fiscal 2011, Fiscal 2010 and the period from October 1, 2008 through August 30, 2009 the Company conducted impairment testing of goodwill and indefinite-lived intangible assets. As a result of this testing the Company recorded non-cash pretax intangible asset impairment charges of approximately $32,450 during Fiscal 2011 and $34,391 in the period from October 1, 2008 through August 30, 2009. Both the $32,450 recorded during Fiscal 2011 and the $34,391 recorded during the period from October 1, 2008 through August 30, 2009 related to impaired trade name intangible assets. (See also Note 2(i), Significant Accounting Policies Intangible Assets, for further details on the impairment charges).

The amortization expense related to intangibles subject to amortization for the Successor Company for Fiscal 2011, Fiscal 2010 and the period from August 31, 2009 through September 30, 2009, and the Predecessor Company for the period from October 1, 2008 through August 30, 2009 is as follows:

	Successor Company			Predecessor Company
	2011	**2010**	**Period from August 31, 2009 through September 30, 2009**	**Period from October 1, 2008 through August 30, 2009**
Proprietary technology amortization	$ 6,817	$ 6,305	$ 515	$ 3,448
Customer list amortization	38,320	35,865	2,988	14,920
Trade names amortization	12,558	3,750	10	731
	$ 57,695	$ 45,920	$ 3,513	$ 19,099

The Company estimates annual amortization expense for the next five fiscal years will approximate $58,000 per year.

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(6) Debt

Debt consists of the following:

	September 30, 2011		September 30, 2010	
	Amount	**Rate**	**Amount**	**Rate**
Term Loan, U.S. Dollar, maturing June 17, 2016	$ 525,237	5.1%	$ 750,000	8.1%
9.5% Notes, due June 15, 2018	750,000	9.5%	750,000	9.5%
12% Notes, due August 28, 2019	245,031	12.0%	245,031	12.0%
ABL Revolving Credit Facility, expiring April 21, 2016		2.5%		4.1%
Other notes and obligations	19,333	10.5%	13,605	10.8%
Capitalized lease obligations	24,911	6.2%	11,755	5.2%
	1,564,512		1,770,391	
Original issuance discounts on debt	(12,900)		(26,624)	
Less current maturities	16,090		20,710	
Long-term debt	$ 1,535,522		$ 1,723,057	

The Successor Company s aggregate scheduled maturities of debt as of September 30, 2011 are as follows:

2012	$ 16,090
2013	14,347
2014	8,792
2015	8,376
2016	505,974
Thereafter	1,010,933
	$ 1,564,512

The Company s aggregate capitalized lease obligations included in the amounts above are payable in installments of $2,645 in 2012, $2,208 in 2013, $1,671 in 2014, $1,255 in 2015, $1,230 in 2016 and $15,902 thereafter.

In connection with the Merger, Spectrum Brands (i) entered into a new senior secured term loan pursuant to a new senior credit agreement (the Senior Credit Agreement) consisting of a $750,000 U.S. dollar term loan, (ii) issued $750,000 of 9.5% Notes and (iii) entered into a $300,000 ABL Revolving Credit Facility. The proceeds from such financings were used to repay Spectrum Brands senior term credit facility that existed at the time of emergence under Chapter 11 of the Bankruptcy Code (the Prior Term Facility) and Spectrum Brands then-existing asset based revolving loan facility, to pay fees and expenses in connection with the refinancing and for general corporate purposes.

The 9.5% Notes and 12% Notes were issued by Spectrum Brands. SB/RH Holdings, LLC, a wholly-owned subsidiary of SB Holdings, and the wholly owned domestic subsidiaries of Spectrum Brands are the guarantors under the 9.5% Notes. The wholly owned domestic subsidiaries of Spectrum Brands are the guarantors under the 12% Notes. SB Holdings is not an issuer or guarantor of the 9.5% Notes or the 12% Notes. SB Holdings is also not a borrower or guarantor under the Company s Term Loan or the ABL Revolving Credit Facility. Spectrum Brands is the borrower under the Term Loan and its wholly owned domestic subsidiaries along with SB/RH Holdings, LLC are the guarantors under that facility. Spectrum Brands and its wholly owned domestic subsidiaries are the borrowers under the ABL Revolving Credit Facility and SB/RH Holdings, LLC is a guarantor of that facility.

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Senior Term Credit Facility

On February 1, 2011, the Company completed the refinancing of its term loan facility, which was initially established in connection with the Merger and had an aggregate amount outstanding of $680,000 upon refinancing (the Term Loan), with an amended and restated credit agreement, together with the amended ABL Revolving Credit Facility, (the Senior Credit Facilities) at a lower interest rate.

The Term Loan was issued at par with a maturity date of June 17, 2016. Subject to certain mandatory prepayment events, the Term Loan is subject to repayment according to a scheduled amortization, with the final payment of all amounts outstanding, plus accrued and unpaid interest, due at maturity. Among other things, the Term Loan provides for interest at a rate per annum equal to, at the Company s option, the LIBO rate (adjusted for statutory reserves) subject to a 1.00% floor plus a margin equal to 4.00%, or an alternate base rate plus a margin equal to 3.00%.

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

The Company recorded $10,545 of fees in connection with the Term Loan during Fiscal 2011. The fees are classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and are amortized as an adjustment to interest expense over the remaining life of the Term Loan. In connection with the refinancing, included in Fiscal 2011 Interest expense are cash charges of $4,954 and accelerated amortization of portions of the unamortized discount and unamortized Debt issuance costs totaling $24,370. In connection with voluntary prepayments of $220,000 of the Term Loan during Fiscal 2011, the Company recorded cash charges of $700 and accelerated amortization of portions of the unamortized discount and unamortized Debt issuance costs totaling $7,521 as an adjustment to increase interest expense.

At September 30, 2011 and September 30, 2010, the aggregate amount outstanding under the Term Loan totaled $525,237 and $750,000, respectively.

9.5% Notes

At both September 30, 2011 and September 30, 2010, the Company had outstanding principal of $750,000 under the 9.5% Notes maturing June 15, 2018.

The Company may redeem all or a part of the 9.5% Notes, upon not less than 30 or more than 60 days notice, at specified redemption prices. Further, the indenture governing the 9.5% Notes (the 2018 Indenture) requires the Company to make an offer, in cash, to repurchase all or a portion of the applicable outstanding notes for a specified redemption price, including a redemption premium, upon the occurrence of a change of control of the Company, as

defined in such indenture.

The 2018 Indenture contains customary covenants that limit, among other things, the incurrence of additional indebtedness, payment of dividends on or redemption or repurchase of equity interests, the making of certain investments, expansion into unrelated businesses, creation of liens on assets, merger or consolidation with another company, transfer or sale of all or substantially all assets, and transactions with affiliates.

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In addition, the 2018 Indenture provides for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments on or acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the 2018 Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 9.5% Notes. If any other event of default under the 2018 Indenture occurs and is continuing, the trustee for the 2018 Indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 9.5% Notes may declare the acceleration of the amounts due under those notes.

The 9.5% Notes were issued at a 1.37% discount and were recorded net of the $10,245 amount incurred. The discount is reflected as an adjustment to the carrying value of principal, and is being amortized with a corresponding charge to interest expense over the remaining life of the 9.5% Notes. During Fiscal 2010, the Company recorded $20,823 of fees in connection with the issuance of the 9.5% Notes. The fees are classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and are amortized as an adjustment to interest expense over the remaining life of the 9.5% Notes.

12% Notes

On August 28, 2009, in connection with emergence from the voluntary reorganization under Chapter 11 of the Bankruptcy Code and pursuant to the Debtors confirmed plan of reorganization, the Company issued $218,076 in aggregate principal amount of 12% Notes maturing August 28, 2019. Semiannually, at its option, the Company may elect to pay interest on the 12% Notes in cash or as payment in kind (PIK). PIK interest is added to principal on the relevant semi-annual interest payment date. Under the Prior Term Facility, the Company agreed to make interest payments on the 12% Notes through PIK for the first three semi-annual interest payment periods following the Effective Date. As a result of the refinancing of the Prior Term Facility, the Company is no longer required to make interest payments as payment in kind after the semi-annual interest payment date of August 28, 2010. All Fiscal 2011 interest payments were made in cash.

The Company may redeem all or a part of the 12% Notes, upon not less than 30 or more than 60 days notice, beginning August 28, 2012 at specified redemption prices. Further, the indenture governing the 12% Notes (the 2019 Indenture) requires the Company to make an offer, in cash, to repurchase all or a portion of the applicable outstanding notes for a specified redemption price, including a redemption premium, upon the occurrence of a change of control of the Company, as defined in such indenture.

At both September 30, 2011 and September 30, 2010, the Company had outstanding principal of $245,031, respectively, under the 12% Notes, including PIK interest of $26,955 that was added to principal during Fiscal 2010.

The 2019 Indenture contains customary covenants that limit, among other things, the incurrence of additional indebtedness, payment of dividends on or redemption or repurchase of equity interests, the making of certain investments, expansion into unrelated businesses, creation of liens on assets, merger or consolidation with another company, transfer or sale of all or substantially all assets, and transactions with affiliates.

In addition, the 2019 Indenture provides for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments on acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the 2019 Indenture arising

from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 12% Notes. If any other event of default under the 2019 Indenture occurs and is continuing, the trustee for the indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 12% Notes may declare the acceleration of the amounts due under those notes.

In connection with the Merger, the Company obtained the consent of the note holders to certain amendments to the 2019 Indenture (the Supplemental Indenture). The Supplemental Indenture became effective upon the closing of the Merger. Among other things, the Supplemental Indenture amended the definition of change in control to exclude

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the Harbinger Capital Partners Master Fund I, Ltd. (Harbinger Master Fund), Harbinger Capital Partners Special Situations Fund, L.P. (Harbinger Special Fund) and, together with Harbinger Master Fund, the HCP Funds), Global Opportunities Breakaway Ltd. (together with the HCP Funds, the Harbinger Parties), and their respective affiliates and increased the Company s ability to incur indebtedness up to $1,850,000.

During Fiscal 2010, the Company recorded $2,966 of fees in connection with the consent. The fees are classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and are amortized as an adjustment to interest expense over the remaining life of the 12% Notes effective with the closing of the Merger.

ABL Revolving Credit Facility

On April 21, 2011 the Company amended the ABL Revolving Credit Facility. The amended facility carries an interest rate, at the Company s option, which is subject to change based on availability under the facility, of either: (a) the base rate plus currently 1.25% per annum or (b) the reserve-adjusted LIBO rate (the Eurodollar Rate) plus currently 2.25% per annum. No amortization is required with respect to the ABL Revolving Credit Facility. The ABL Revolving Credit Facility is scheduled to expire on April 21, 2016.

The ABL Revolving Credit Facility is governed by a credit agreement (the ABL Credit Agreement) with Bank of America as administrative agent (the Agent). The ABL Revolving Credit Facility consists of revolving loans (the Revolving Loans), with a portion available for letters of credit and a portion available as swing line loans, in each case subject to the terms and limits described therein.

The Revolving Loans may be drawn, repaid and re-borrowed without premium or penalty. The proceeds of borrowings under the ABL Revolving Credit Facility are to be used for costs, expenses and fees in connection with the ABL Revolving Credit Facility, working capital requirements of the Company and its subsidiaries, restructuring costs, and for other general corporate purposes.

The ABL Credit Agreement contains various representations and warranties and covenants, including, without limitation, enhanced collateral reporting, and a maximum fixed charge coverage ratio. The ABL Credit Agreement also provides for customary events of default, including payment defaults and cross-defaults on other material indebtedness.

During Fiscal 2010, the Company recorded $9,839 of fees in connection with the ABL Revolving Credit Facility. During Fiscal 2011, the Company recorded $2,071 of fees in connection with the amendment. The fees are classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and are amortized as an adjustment to interest expense over the remaining life of the ABL Revolving Credit Facility. Pursuant to the credit and security agreement, the obligations under the ABL credit agreement are secured by certain current assets of the guarantors, including, but not limited to, deposit accounts, trade receivables and inventory.

As a result of borrowings and payments under the ABL Revolving Credit Facility at September 30, 2011, the Company had aggregate borrowing availability of approximately $176,612, net of lender reserves of $48,769 and outstanding letters of credit of $32,962.

At September 30, 2010, the Company had aggregate borrowing availability of approximately $225,255, net of lender reserves of $28,972 and outstanding letters of credit of $36,969.

(7) Derivative Financial Instruments

Derivative financial instruments are used by the Company principally in the management of its interest rate, foreign currency exchange rate and raw material price exposures. The Company does not hold or issue derivative financial instruments for trading purposes. When hedge accounting is elected at inception, the Company formally designates the financial instrument as a hedge of a specific underlying exposure if such criteria are met, and documents both the

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risk management objectives and strategies for undertaking the hedge. The Company formally assesses, both at the inception and at least quarterly thereafter, whether the financial instruments that are used in hedging transactions are effective at offsetting changes in the forecasted cash flows of the related underlying exposure. Because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the forecasted cash flows of the underlying exposures being hedged. Any ineffective portion of a financial instrument s change in fair value is immediately recognized in earnings. For derivatives that are not designated as cash flow hedges, or do not qualify for hedge accounting treatment, the change in the fair value is also immediately recognized in earnings.

The Company discloses its derivative instruments and hedging activities in accordance with ASC Topic 815: *Derivatives and Hedging,* (ASC 815).

The fair value of outstanding derivative contracts recorded as assets in the accompanying Consolidated Statements of Financial Position were as follows:

Asset Derivatives		**September 30, 2011**	**September 30, 2010**
Derivatives designated as hedging instruments under ASC 815:			
Commodity contracts	Receivables Other	$ 274	$ 2,371
Commodity contracts	Deferred charges and other		1,543
Foreign exchange contracts	Receivables Other	3,189	20
Foreign exchange contracts	Deferred charges and other		55
Total asset derivatives designated as hedging instruments under ASC 815		$ 3,463	$ 3,989
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Receivables Other		
Total asset derivatives		$ 3,463	$ 3,989

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The fair value of outstanding derivative contracts recorded as liabilities in the accompanying Consolidated Statements of Financial Position were as follows:

Liability Derivatives		**September 30, 2011**	**September 30, 2010**
Derivatives designated as hedging instruments under ASC 815:			
Interest rate contracts	Accounts payable	$ 1,246	$ 3,734
Interest rate contracts	Accrued interest	708	861
Interest rate contracts	Other long term liabilities		2,032
Commodity contracts	Accounts payable	1,228	
Commodity contracts	Other long term liabilities	4	
Foreign exchange contracts	Accounts payable	2,698	6,544
Foreign exchange contracts	Other long term liabilities		1,057
Total liability derivatives designated as hedging instruments under ASC 815		$ 5,884	$ 14,228
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Accounts payable	10,945	9,698
Foreign exchange contracts	Other long term liabilities	12,036	20,887
Total liability derivatives		$ 28,865	$ 44,813

Changes in AOCI from Derivative Instruments

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

The following table summarizes the impact of derivative instruments on the accompanying Consolidated Statements of Operations for Fiscal 2011 (Successor Company):

	Location of Gain (Loss)	**Amo o Ga (Lo**

ves in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Recog in Inco on Deriva (Ineffe Port an Amo Exclu fro Effecti Test
dity contracts	$ (1,750)	Cost of goods sold	$ 2,617	Cost of goods sold	$
rate contracts	(88)	Interest expense	(3,319)	Interest expense	(
exchange contracts	(487)	Net Sales	(131)	Net sales	
exchange contracts	(4,011)	Cost of goods sold	(12,384)	Cost of goods sold	
	$ (6,336)		$ (13,217)		$ (

(A) Reclassified from AOCI associated with the prepayment of portions of the senior credit facility. (See also Note 6, Debt, for a more complete discussion of the Company s refinancing of its senior credit facility.)

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The following table summarizes the impact of derivative instruments on the accompanying Consolidated Statements of Operations for Fiscal 2010 (Successor Company):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Commodity contracts	$ 3,646	Cost of goods sold	$ 719	Cost of goods sold	$ (1)
Interest rate contracts	(13,059)	Interest expense	(4,439)	Interest expense	(6,112)(A)
Foreign exchange contracts	(752)	Net Sales	(812)	Net sales	
Foreign exchange contracts	(4,560)	Cost of goods sold	2,481	Cost of goods sold	
Total	$ (14,725)		$ (2,051)		$ (6,113)

(A) Includes $(4,305) reclassified from AOCI associated with the refinancing of the senior credit facility. (See also Note 6, Debt, for a more complete discussion of the Company s refinancing of its senior credit facility.)

The following table summarizes the impact of derivative instruments on the accompanying Consolidated Statements of Operations for the period from August 31, 2009 through September 30, 2009 (Successor Company):

Location of Gain (Loss)	Amoun of

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Gain (Loss) Recogniz in Incom on Derivati (Ineffect Portion and Amoun Exclude from Effectiver Testing
Commodity contracts	$ 530	Cost of goods sold	$	Cost of goods sold	$
Foreign exchange contracts	(127)	Net Sales		Net sales	
Foreign exchange contracts	(418)	Cost of goods sold		Cost of goods sold	
Total	$ (15)		$		$

The following table summarizes the impact of derivative instruments designated as cash flow hedges on the accompanying Consolidated Statements of Operations for the period from October 1, 2008 through August 30, 2009 (Predecessor Company):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Commodity contracts	$ (4,512)	Cost of goods sold	$ (11,288)	Cost of goods sold	$ 851

Interest rate contracts		(8,130)	Interest expense		(2,096)	Interest expense		(11,847)(A)
Foreign exchange contracts		1,357	Net Sales		544	Net sales		
Foreign exchange contracts		9,251	Cost of goods sold		9,719	Cost of goods sold		
Commodity contracts		(1,313)	Discontinued operations		(2,116)	Discontinued operations		(12,803)
Total	$	(3,347)		$	(5,237)		$	(23,799)

(A) Included in this amount is $(6,191), reflected in the Derivatives Not Designated as Hedging Instruments Under ASC 815 table below, as a result of the de-designation of a cash flow hedge as described below.

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Other Changes in Fair Value of Derivative Contracts

For derivative instruments that are used to economically hedge the fair value of the Company s third party and intercompany payments and interest rate payments, the gain (loss) associated with the derivative contract is recognized in earnings in the period of change.

During Fiscal 2011 the Successor Company recognized the following respective gains (losses) on derivative contracts:

	Amount of Gain (Loss) Recognized in Income on Derivatives	Location of Gain or (Loss) Recognized in Income on Derivatives
Foreign exchange contracts	$ (5,052)	Other expense (income), net

During Fiscal 2010 the Successor Company recognized the following respective gains (losses) on derivative contracts:

	Amount of Gain (Loss) Recognized in Income on Derivatives	Location of Gain or (Loss) Recognized in Income on Derivatives
Commodity contracts	$ 153	Cost of goods sold
Foreign exchange contracts	(42,039)	Other expense (income), net
Total	$ (41,886)	

During the period from August 31, 2009 through September 30, 2009 (Successor Company) and the period from October 1, 2008 through August 30, 2009 (Predecessor Company), the Company recognized the following respective gains (losses) on derivative contracts:

	Amount of Gain (Loss) Recognized in Income on Derivatives		
	Successor Company Period from August 31, 2009 through	Predecessor Company Period from October 1, 2008 through	Location of Gain or (Loss)

Derivatives Not Designated as Hedging Instruments Under ASC 815	September 30, 2009	August 30, 2009	Recognized in Income on Derivatives
Interest rate contracts(A)	$	$ (6,191)	Interest expense
Foreign exchange contracts	(1,469)	3,075	Other expense (income), net
Total	$ (1,469)	$ (3,116)	

(A) Amount represents portion of certain future payments related to interest rate contracts that were de-designated as cash flow hedges during the pendency of the Bankruptcy Cases.

Credit Risk

The Company is exposed to the risk of default by the counterparties with which it transacts and generally does not require collateral or other security to support financial instruments subject to credit risk. The Company monitors counterparty credit risk on an individual basis by periodically assessing each such counterparty s credit rating exposure. The maximum loss due to credit risk equals the fair value of the gross asset derivatives which are primarily concentrated with a foreign financial institution counterparty. The Company considers these exposures when measuring its credit reserve on its derivative assets, which was $18 and $75, respectively, at September 30, 2011 and September 30, 2010.

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The Company s standard contracts do not contain credit risk related contingencies whereby the Company would be required to post additional cash collateral as a result of a credit event. However, as a result of the Company s current credit profile, the Company is typically required to post collateral in the normal course of business to offset its liability positions. At September 30, 2011 and September 30, 2010, the Company had posted cash collateral of $418 and $2,363, respectively, related to such liability positions. In addition, at September 30, 2011 and September 30, 2010, the Company had posted standby letters of credit of $2,000 and $4,000, respectively, related to such liability positions. The cash collateral is included in Receivables Other within the accompanying Consolidated Statements of Financial Position.

Derivative Financial Instruments

Cash Flow Hedges

The Company uses interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the changes in fair value recorded in AOCI and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or receivables, respectively, and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. At September 30, 2011, the Company had a portfolio of U.S. dollar-denominated interest rate swaps outstanding which effectively fixes the interest on floating rate debt, exclusive of lender spreads as follows: 2.25% for a notional principal amount of $200,000 through December 2011 and 2.29% for a notional principal amount of $300,000 through January 2012 (the U.S. dollar swaps). During Fiscal 2010, in connection with the refinancing of its senior credit facilities, the Company terminated a portfolio of Euro-denominated interest rate swaps at a cash loss of $3,499 which was recognized as an adjustment to interest expense. The derivative net loss on the U.S. dollar swaps contracts recorded in AOCI by the Company at September 30, 2011 was $545, net of tax benefit of $334. The derivative net loss on the U.S. dollar swaps contracts recorded in AOCI by the Company at September 30, 2010 was $2,675, net of tax benefit of $1,640. The derivative net gain or loss on these contracts recorded in AOCI by the Company at September 30, 2009 was $0. At September 30, 2011, the portion of derivative net losses estimated to be reclassified from AOCI into earnings by the Successor Company over the next 12 months is $545, net of tax.

In connection with the Company s merger with Russell Hobbs and the refinancing of the Company s existing senior credit facilities associated with the closing of the Merger, the Company assessed the prospective effectiveness of its interest rate cash flow hedges during Fiscal 2010. As a result, during Fiscal 2010, the Company ceased hedge accounting and recorded a loss of $1,451 as an adjustment to interest expense for the change in fair value of its U.S. dollar swaps from the date of de-designation until the U.S. dollar swaps were re-designated. The Company also evaluated whether the amounts recorded in AOCI associated with the forecasted U.S. dollar swap transactions were probable of not occurring and determined that occurrence of the transactions was still reasonably possible. Upon the refinancing of the existing senior credit facility associated with the closing of the Merger, the Company re-designated the U.S. dollar swaps as cash flow hedges of certain scheduled interest rate payments on the new $750,000 U.S. Dollar Term Loan expiring June 17, 2016. At September 30, 2011, the Company believes that all forecasted interest rate swap transactions designated as cash flow hedges are probable of occurring.

The Company s interest rate swap derivative financial instruments at September 30, 2011 and September 30, 2010 are summarized as follows:

	2011		2010	
	Notional Amount	Remaining Term	Notional Amount	Remaining Term
Interest rate swaps-fixed	$ 200,000	.28 years	$ 300,000	1.28 years
Interest rate swaps-fixed	$ 300,000	.36 years	$ 300,000	1.36 years

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The Company periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign denominated third party and intercompany sales or payments. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Australian Dollars, Brazilian Reals, Canadian Dollars or Japanese Yen. These foreign exchange contracts are cash flow hedges of fluctuating foreign exchange related to sales or product or raw material purchases. Until the sale or purchase is recognized, the fair value of the related hedge is recorded in AOCI and as a derivative hedge asset or liability, as applicable. At the time the sale or purchase is recognized, the fair value of the related hedge is reclassified as an adjustment to Net sales or purchase price variance in Cost of goods sold.

At September 30, 2011 the Company had a series of foreign exchange derivative contracts outstanding through September 2012 with a contract value of $223,417. At September 30, 2010 the Company had a series of foreign exchange derivative contracts outstanding through June 2012 with a contract value of $299,993. The pretax derivative gain on these contracts recorded in AOCI by the Company at September 30, 2011 was $343, net of tax expense of $148. The derivative net loss on these contracts recorded in AOCI by the Company at September 30, 2010 was $5,322, net of tax benefit of $2,204. At September 30, 2011, the portion of derivative net gains estimated to be reclassified from AOCI into earnings by the Company over the next 12 months is $343, net of tax.

The Company is exposed to risk from fluctuating prices for raw materials, specifically zinc used in its manufacturing processes. The Company hedges a portion of the risk associated with these materials through the use of commodity swaps. The hedge contracts are designated as cash flow hedges with the fair value changes recorded in AOCI and as a hedge asset or liability, as applicable. The unrecognized changes in fair value of the hedge contracts are reclassified from AOCI into earnings when the hedged purchase of raw materials also affects earnings. The swaps effectively fix the floating price on a specified quantity of raw materials through a specified date. At September 30, 2011 the Company had a series of such swap contracts outstanding through December 2012 for 9 tons with a contract value of $18,858. At September 30, 2010 the Company had a series of such swap contracts outstanding through September 2012 for 15 tons with a contract value of $28,897. The derivative net loss on these contracts recorded in AOCI by the Company at September 30, 2011 was $599, net of tax benefit of $312. The derivative net gain on these contracts recorded in AOCI by the Company at September 30, 2010 was $2,256, net of tax expense of $1,201. At September 30, 2011, the portion of derivative net losses estimated to be reclassified from AOCI into earnings by the Company over the next 12 months is $597, net of tax.

The Company was also exposed to fluctuating prices of raw materials, specifically urea and di-ammonium phosphates (DAP), used in its manufacturing processes in the growing products portion of the Home and Garden Business. During the period from October 1, 2008 through August 30, 2009 (Predecessor Company) $2,116 of pretax derivative losses were recorded as an adjustment to Loss from Discontinued operations, net of tax, for swap or option contracts settled at maturity. The hedges are generally highly effective; however, during the period from October 1, 2008 through August 30, 2009, $12,803 of pretax derivative losses, were recorded as an adjustment to Loss from discontinued operations, net of tax, by the Predecessor Company. The amount recorded during the period from October 1, 2008 through August 30, 2009, was due to the shutdown of the growing products portion of the Home and Garden Business and a determination that the forecasted transactions were probable of not occurring. The Successor Company had no such swap contracts outstanding as of September 30, 2009 and no related gain or loss recorded in AOCI.

Derivative Contracts

The Company periodically enters into forward and swap foreign exchange contracts to economically hedge the risk from third party and intercompany payments resulting from existing obligations. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros or Australian Dollars. These foreign exchange contracts are economic hedges of a related liability or asset recorded in the accompanying Consolidated Statements of Financial Position. The gain or loss on the derivative hedge contracts is recorded in earnings as an

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offset to the change in value of the related liability or asset at each period end. At September 30, 2011 and September 30, 2010 the Company had $265,974 and $333,562, respectively, of such foreign exchange derivative notional value contracts outstanding.

During the period from October 1, 2008 through August 30, 2009, as a result of the Bankruptcy Cases, the Predecessor Company determined that previously designated cash flow hedge relationships associated with interest rate swaps became ineffective as of the Company s Petition Date. Further, the Company s then existing senior secured term credit agreement was amended in connection with the implementation of the Plan, and accordingly the underlying transactions did not occur as originally forecasted. As a result, the Predecessor Company reclassified approximately $6,191 of pretax losses from AOCI as an adjustment to Interest expense during the period from October 1, 2008 through August 30, 2009. As a result, the portion of derivative net losses to be reclassified from AOCI into earnings over the next 12 months was $0. The Predecessor Company s related derivative contracts were terminated during the pendency of the Bankruptcy Cases and settled at a loss on the Effective Date.

(8) Fair Value of Financial Instruments

ASC Topic 820: *Fair Value Measurements and Disclosures,* (ASC 820), establishes a new framework for measuring fair value and expands related disclosures. Broadly, the ASC 820 framework requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. ASC 820 establishes market or observable inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. The Company utilizes valuation techniques that attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of the fair values considers various factors, including closing exchange or over-the-counter market pricing quotations, time value and credit quality factors underlying options and contracts. The fair value of certain derivative financial instruments is estimated using pricing models based on contracts with similar terms and risks. Modeling techniques assume market correlation and volatility, such as using prices of one delivery point to calculate the price of the contract s different delivery point. The nominal value of interest rate transactions is discounted using applicable forward interest rate curves. In addition, by applying a credit reserve which is calculated based on credit default swaps or published default probabilities for the actual and potential asset value, the fair value of the Company s derivative financial instrument assets reflects the risk that the counterparties to these contracts may default on the obligations. Likewise, by assessing the requirements of a reserve for non-performance which is calculated based on the probability of default by the Company, the Company adjusts its derivative contract liabilities to reflect the price at which a potential market participant would be willing to assume the Company s liabilities. The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the year.

The valuation techniques required by ASC 820 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions made by the Company. These two types of inputs create the following fair value hierarchy:

Level 1 Unadjusted quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value

drivers are observable.

Level 3 Significant inputs to the valuation model are unobservable.

The Company maintains policies and procedures to value instruments using the best and most relevant data available. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety

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falls must be determined based on the lowest level input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. In addition, the Company has risk management teams that review valuation, including independent price validation for certain instruments. Further, in other instances, the Company retains independent pricing vendors to assist in valuing certain instruments.

The Company s derivatives are valued on a recurring basis using internal models, which are based on market observable inputs including interest rate curves and both forward and spot prices for currencies and commodities.

The Company s net derivative portfolio as of September 30, 2011, contains Level 2 instruments and consists of commodity, interest rate and foreign exchange contracts. The fair values of these instruments as of September 30, 2011 were as follows:

	Level 1	Level 2	Level 3	Total
Total Assets	$	$	$	$
Liabilities:				
Interest rate contracts	$	$ (1,954)	$	$ (1,954)
Commodity contracts	$	$ (958)	$	$ (958)
Foreign exchange contracts, net		(22,489)	$	(22,489)
Total Liabilities	$	$ (25,401)	$	$ (25,401)

The Company s net derivative portfolio as of September 30, 2010, contains Level 2 instruments and consists of commodity, interest rate and foreign exchange contracts. The fair values of these instruments as of September 30, 2010 were as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Commodity contracts	$	$ 3,914	$	$ 3,914
Total Assets	$	$ 3,914	$	$ 3,914
Liabilities:				
Interest rate contracts	$	$ (6,627)	$	$ (6,627)
Foreign exchange contracts, net		(38,111)	$	(38,111)
Total Liabilities	$	$ (44,738)	$	$ (44,738)

The carrying values of cash and cash equivalents, accounts and notes receivable, accounts payable and short-term debt approximate fair value. The fair values of long-term debt and derivative financial instruments are generally based on quoted or observed market prices.

The carrying values of goodwill, intangible assets and other long-lived assets are tested annually, or more frequently if a triggering event occurs that indicates an impairment loss may have been incurred using fair value measurements with unobservable inputs (Level 3). The Company recorded impairment charges related to intangible assets during Fiscal 2011. (See also Note 2(i), Significant Accounting Policies Intangible Assets, for further details on impairment testing.)

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The carrying amounts and fair values of the Company s financial instruments are summarized as follows ((liability)/asset):

	September 30, 2011		September 30, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Total debt	$ (1,551,612)	$ (1,635,528)	$ (1,743,767)	$ (1,868,754)
Interest rate swap agreements	(1,954)	(1,954)	(6,627)	(6,627)
Commodity swap and option agreements	(958)	(958)	3,914	3,914
Foreign exchange forward agreements	(22,489)	(22,489)	(38,111)	(38,111)

(9) Income Taxes

Income tax expense was calculated based upon the following components of income (loss) from continuing operations before income tax:

	Successor Company			Predecessor Company
	2011	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Pretax income (loss):				
United States	$ (119,984)	$ (230,262)	$ (28,043)	$ 936,379
Outside the United States	137,108	106,079	8,043	186,975
Total pretax income (loss)	$ 17,124	$ (124,183)	$ (20,000)	$ 1,123,354

The components of income tax expense are as follows:

Successor Company			Predecessor Company
		Period from August 31, 2009	Period from October 1, 2008

	2011	2010	through September 30, 2009	through August 30, 2009
Current:				
Foreign	32,649	44,481	$ 3,111	$ 24,159
State	2,332	2,907	282	(364)
Total current	34,981	47,388	3,393	23,795
Deferred:				
Federal	20,247	22,119	49,790	(1,599)
Foreign	28,054	(6,514)	(1,266)	1,581
State	9,013	196	(724)	(1,166)
Total deferred	57,314	15,801	47,800	(1,184)
Income tax expense	$ 92,295	$ 63,189	$ 51,193	$ 22,611

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The following reconciles the Federal statutory income tax rate with the Company s effective tax rate:

	Successor Company			Predecessor Company
	2011	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Statutory federal income tax rate	35.0%	35.0%	35.0%	35.0%
Permanent items	61.9	(2.1)	5.9	1.0
Foreign statutory rate vs. U.S. statutory rate	(83.1)	8.1	3.6	(0.8)
State income taxes, net of federal benefit	7.2	4.0	3.9	(0.6)
Fresh-start reporting valuation adjustment(A)				(33.9)
Gain on settlement of liabilities subject to compromise				4.5
Professional fees incurred in connection with Bankruptcy Filing				1.4
Residual tax on foreign earnings	83.8	(7.5)	(284.7)	
Valuation allowance	428.1	(73.3)	(7.4)	(4.6)
Reorganization items		(6.1)		
Unrecognized tax benefits	(16.3)	(2.6)	(9.3)	
Inflationary adjustments	(8.6)	(2.7)	(1.1)	
Correction of immaterial prior period error	28.5	(4.8)		
Other	2.5	1.1	(1.9)	
	539.0%	(50.9)%	(256.0)%	2.0%

(A) Includes the adjustment to the valuation allowance resulting from fresh-start reporting.

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The tax effects of temporary differences, which give rise to significant portions of the deferred tax assets and deferred tax liabilities, are as follows:

	Successor Company September 30,	
	2011	2010
Current deferred tax assets:		
Employee benefits	$ 14,188	$ 21,770
Restructuring	10,682	6,486
Inventories and receivables	21,521	13,484
Marketing and promotional accruals	8,911	5,783
Other	14,742	22,712
Valuation allowance	(28,772)	(28,668)
Total current deferred tax assets	41,272	41,567
Current deferred tax liabilities:		
Inventories and receivables	(5,015)	(1,947)
Other	(8,087)	(3,885)
Total current deferred tax liabilities	(13,102)	(5,832)
Net current deferred tax assets	$ 28,170	$ 35,735
Noncurrent deferred tax assets:		
Employee benefits	$ 30,177	$ 17,599
Restructuring and purchase accounting	2,269	20,541
Marketing and promotional accruals	587	1,311
Net operating loss and credit carry forwards	525,394	513,779
Prepaid royalty	7,346	9,708
Property, plant and equipment	5,240	3,207
Unrealized losses	9,000	4,202
Other	32,507	14,335
Valuation allowance	(345,121)	(302,268)
Total noncurrent deferred tax assets	267,399	282,414
Noncurrent deferred tax liabilities:		
Property, plant, and equipment	(16,593)	(13,862)
Unrealized gains	(11,619)	
Intangibles	(571,454)	(544,478)
Other	(5,069)	(1,917)

Total noncurrent deferred tax liabilities	(604,735)	(560,257)
Net noncurrent deferred tax liabilities	$ (337,336)	$ (277,843)
Net current and noncurrent deferred tax liabilities	$ (309,166)	$ (242,108)

During Fiscal 2011, the Company recorded residual U.S. and foreign taxes on approximately $39,391 of distributions of foreign earnings resulting in an increase in tax expense of approximately $771. The distributions were primarily non-cash deemed distributions under U.S. tax law. During Fiscal 2010, the

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Company recorded residual U.S. and foreign taxes on approximately $26,600 of distributions of foreign earnings resulting in an increase in tax expense of approximately $9,312. The distributions were primarily non-cash deemed distributions under U.S. tax law. During the period from August 31, 2009 through September 30, 2009, the Successor Company recorded residual U.S. and foreign taxes on approximately $165,937 of actual and deemed distributions of foreign earnings resulting in an increase in tax expense of approximately $58,295. The Company made these distributions, which were primarily non-cash, to reduce the U.S. tax loss for Fiscal 2009 as a result of Section 382 considerations. Remaining undistributed earnings of the Company s foreign operations amounting to approximately $451,796 and $302,447 at September 30, 2011 and September 30, 2010, respectively, are intended to remain permanently invested. Accordingly, no residual income taxes have been provided on those earnings at September 30, 2011 and September 30, 2010. If at some future date these earnings cease to be permanently invested, the Company may be subject to U.S. income taxes and foreign withholding and other taxes on such amounts, which cannot be reasonably estimated at this time. In light of the Company s plans to voluntarily pay down its U.S. debt, repurchase shares, fund U.S. acquisitions and the Company s ongoing U.S. operational cash flow requirements, the Company does not intend to treat future earnings of its non-U.S. subsidiaries (i.e. earnings beginning in Fiscal 2012 and forward) as permanently reinvested, except for locations precluded by local legal restrictions from repatriating earnings.

The Company, as of September 30, 2011, has U.S. federal and state net operating loss carryforwards of approximately $1,163,012 and $1,197,367, respectively. These net operating loss carryforwards expire through years ending in 2032. The Company has foreign loss carryforwards of approximately $140,062 which will expire beginning in 2012. Certain of the foreign net operating losses have indefinite carryforward periods. The Company is subject to an annual limitation on the use of its net operating losses that arose prior to its emergence from bankruptcy. The Company has had multiple changes of ownership, as defined under IRC Section 382, that subject the Company s U.S. federal and state net operating losses and other tax attributes to certain limitations. The annual limitation is based on a number of factors including the value of the Company s stock (as defined for tax purposes) on the date of the ownership change, its net unrealized built in gain position on that date, the occurrence of realized built in gains in years subsequent to the ownership change, and the effects of subsequent ownership changes (as defined for tax purposes) if any. Due to these limitations, the Company estimates that $302,465 of the total U.S. federal and $385,159 of the state net operating loss would expire unused if the Company generates sufficient income to otherwise use all its NOLs. In addition, separate return year limitations apply to limit the Company s utilization of the acquired Russell Hobbs U.S. federal and state net operating losses to future income of the Russell Hobbs subgroup. The Company also projects that $35,354 of the total foreign loss carryforwards will expire unused. The Company has provided a full valuation allowance against these deferred tax assets.

The Predecessor Company recognized income tax expense of approximately $124,054 related to the gain on the settlement of liabilities subject to compromise and the modification of the senior secured credit facility in the period from October 1, 2008 through August 30, 2009. The Company, has, in accordance with IRC Section 108, reduced its net operating loss carryforwards for cancellation of debt income that arose from its emergence from Chapter 11 of the Bankruptcy Code, under IRC Section 382(1)(6).

A valuation allowance is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability of the Company to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. As of September 30, 2011 and September 30, 2010, the Company s valuation allowance, established for the tax benefit that may not be realized, totaled approximately $373,893 and $330,936, respectively. As of September 30, 2011 and

September 30, 2010, approximately $338,538 and $299,524, respectively, related to U.S. net deferred tax assets, and approximately $35,354 and $31,412, respectively, related to foreign net deferred tax assets. The increase in the valuation allowance for deferred tax assets during Fiscal 2011 totaled approximately $42,957, of which approximately $39,014 related to an increase in the valuation allowance against U.S. net deferred tax assets, and approximately $3,942 related to an increase in the valuation

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allowance against foreign net deferred tax assets. During Fiscal 2011, the Company determined that a valuation allowance is required against deferred tax assets related to net operating losses in Brazil, and thus recorded a $25,877 charge to increase the valuation allowance. The Company also removed net operating losses and the corresponding valuation allowances in those reorganizations where the net operating losses could not be carried over to a new entity.

The total amount of unrecognized tax benefits on the Successor Company s Consolidated Statements of Financial Position at September 30, 2011 and September 30, 2010 are $9,013 and $12,808, respectively. If recognized in the future, the entire amount of unrecognized tax benefits will affect the effective tax rate. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Successor Company as of September 30, 2011 and September 30, 2010 had approximately $4,682 and $5,860, respectively, of accrued interest and penalties related to uncertain tax positions. The impact related to interest and penalties on the Consolidated Statement of Operations for Fiscal 2011 was a net decrease to income tax expense of $(1,422). The impact related to interest and penalties on the Consolidated Statement of Operations for Fiscal 2010 was a net increase to income tax expense of $1,527. The impact related to interest and penalties on the Consolidated Statements of Operations for the period from October 1, 2008 through August 30, 2009 (Predecessor Company) and the period from August 31, 2009 through September 30, 2009 (Successor Company) was not material. In connection with the Merger, the Company recorded additional unrecognized tax benefits of approximately $3,299 as part of purchase accounting.

As of September 30, 2011, certain of the Company s legal entities are undergoing income tax audits. The Company cannot predict the ultimate outcome of the examinations; however, it is reasonably possible that during the next 12 months some portion of previously unrecognized tax benefits could be recognized.

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The following table summarizes the changes to the amount of unrecognized tax benefits of Company for Fiscal 2011, Fiscal 2010, and Fiscal 2009:

Unrecognized tax benefits at September 30, 2008 (Predecessor Company)	$ 6,755
Gross increase tax positions in prior period	26
Gross decrease tax positions in prior period	(11)
Gross increase tax positions in current period	1,673
Lapse of statutes of limitations	(807)
Unrecognized tax benefits at August 30, 2009 (Predecessor Company)	$ 7,636
Gross decrease tax positions in prior period	(15)
Gross increase tax positions in current period	174
Lapse of statutes of limitations	(30)
Unrecognized tax benefits at September 30, 2009 (Successor Company)	$ 7,765
Russell Hobbs acquired unrecognized tax benefits	3,251
Gross decrease tax positions in prior period	(904)
Gross increase tax positions in current period	3,390
Lapse of statutes of limitations	(694)
Unrecognized tax benefits at September 30, 2010 (Successor Company)	$ 12,808
Gross increase tax positions in prior period	1,658
Gross decrease tax positions in prior period	(823)
Gross increase tax positions in current period	596
Settlements	(1,850)
Lapse of statutes of limitations	(3,376)
Unrecognized tax benefits at September 30, 2011 (Successor Company)	$ 9,013

The Company files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions and is subject to ongoing examination by the various taxing authorities. The Company s major taxing jurisdictions are the U.S., United Kingdom, and Germany. In the U.S., federal tax filings for years prior to and including the Company s fiscal year ended September 30, 2007 are closed. However, the federal net operating loss carryforwards from the Company s fiscal years ended September 30, 2007 and prior are subject to Internal Revenue Service (IRS) examination until the year that such net operating loss carryforwards are utilized and those years are closed for audit. The Company s fiscal years ended September 30, 2008, 2009, 2010 and 2011 remain open to examination by the IRS. Filings in various U.S. state and local jurisdictions are also subject to audit and to date no significant audit matters have arisen.

In the U.S., federal tax filings for years prior to and including Russell Hobbs year ended June 30, 2008 are closed. However, the federal net operating loss carryforwards for Russell Hobbs fiscal years ended June 30, 2008 and prior are subject to examination by the IRS until the year that such net operating losses are utilized and those years are

closed for audit.

During Fiscal 2011 we recorded the correction of an immaterial prior period error in our consolidated financial statements related to the effective state income tax rates for the U.S. subsidiaries. During Fiscal 2010 we recorded the correction of an immaterial prior period error in our consolidated financial statements related to deferred taxes in certain foreign jurisdictions. We believe the correction of these errors to be both quantitatively and qualitatively immaterial to our annual results for Fiscal 2011, Fiscal 2010 or to any of our previously issued financial statements. The impact of the corrections were an increase to income tax expense and an increase to deferred tax liabilities in

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Fiscal 2011 of approximately $4,873 and an increase to income tax expense and a decrease to deferred tax assets in Fiscal 2010 of approximately $5,900.

(10) Employee Benefit Plans

Pension Benefits

The Company has various defined benefit pension plans covering some of its employees in the United States and certain employees in other countries, primarily the United Kingdom and Germany. Plans generally provide benefits of stated amounts for each year of service. The Company funds its U.S. pension plans in accordance with the requirements of the defined benefit pension plans and, where applicable, in amounts sufficient to satisfy the minimum funding requirements of applicable laws. Additionally, in compliance with the Company s funding policy, annual contributions to non-U.S. defined benefit plans are equal to the actuarial recommendations or statutory requirements in the respective countries.

The Company also sponsors or participates in a number of other non-U.S. pension arrangements, including various retirement and termination benefit plans, some of which are covered by local law or coordinated with government-sponsored plans, which are not significant in the aggregate and therefore are not included in the information presented below. The Company also has various nonqualified deferred compensation agreements with certain of its employees. Under certain of these agreements, the Company has agreed to pay certain amounts annually for the first 15 years subsequent to retirement or to a designated beneficiary upon death. It is management s intent that life insurance contracts owned by the Company will fund these agreements. Under the remaining agreements, the Company has agreed to pay such deferred amounts in up to 15 annual installments beginning on a date specified by the employee, subsequent to retirement or disability, or to a designated beneficiary upon death.

Other Benefits

Under the Rayovac postretirement plan, the Company provides certain health care and life insurance benefits to eligible retired employees. Participants earn retiree health care benefits after reaching age 45 over the next 10 succeeding years of service, and remain eligible until reaching age 65. The plan is contributory; retiree contributions have been established as a flat dollar amount with contribution rates expected to increase at the active medical trend rate. The plan is unfunded. The Company is amortizing the transition obligation over a 20-year period.

Under the Tetra U.S. postretirement plan, the Company provides postretirement medical benefits to full-time employees who meet minimum age and service requirements. The plan is contributory with retiree contributions adjusted annually, and contains other cost-sharing features such as deductibles, coinsurance and copayments.

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The following tables provide additional information on the Company s pension and other postretirement benefit plans:

	Pension and Deferred Compensation Benefits		Other Benefits	
	2011	2010	2011	2010
Change in benefit obligation				
Benefit obligation, beginning of year	$ 214,977	$ 132,752	$ 527	$ 476
Obligations assumed from Merger with Russell Hobbs		54,468		
Service cost	2,543	2,479	11	9
Interest cost	10,380	8,239	27	26
Actuarial (gain) loss	(9,027)	25,140	(21)	25
Participant contributions	189	495		
Benefits paid	(8,685)	(6,526)	(2)	(9)
Foreign currency exchange rate changes	(905)	(2,070)		
Benefit obligation, end of year	$ 209,472	$ 214,977	$ 542	$ 527
Change in plan assets				
Fair value of plan assets, beginning of year	$ 125,566	$ 78,345	$	$
Assets acquired from Merger with Russell Hobbs		38,458		
Actual return on plan assets	(100)	7,613		
Employer contributions	12,854	6,234	2	9
Employee contributions	1,821	2,127		
Benefits paid	(8,685)	(6,526)	(2)	(9)
Plan expenses paid	(226)	(237)		
Foreign currency exchange rate changes	(589)	(448)		
Fair value of plan assets, end of year	$ 130,641	$ 125,566	$	$
Accrued Benefit Cost	**$ (78,831)**	**$ (89,411)**	**$ (542)**	**$ (527)**
Weighted-average assumptions:				
Discount rate	4.2%-13.6%	4.2%-13.6%	5.0%	5.0%
Expected return on plan assets	3.0%-7.8%	4.5%-8.8%	N/A	N/A
Rate of compensation increase	0%-5.5%	0%-5.5%	N/A	N/A

The net underfunded status as of September 30, 2011 and September 30, 2010 of $78,831 and $89,411, respectively, is recognized in the accompanying Consolidated Statements of Financial Position within Employee benefit obligations, net of current portion. Included in the Company s AOCI as of September 30, 2011 and September 30, 2010 are unrecognized net losses of $21,496, net of tax benefit of $11,460 and $17,197, net of tax benefit of $5,894, respectively, which have not yet been recognized as components of net periodic pension cost. The net loss in AOCI expected to be recognized during Fiscal 2012 is $693.

At September 30, 2011, the Company s total pension and deferred compensation benefit obligation of $209,472 consisted of $67,611 associated with U.S. plans and $141,861 associated with international plans. The fair value of the Company s assets of $130,641 consisted of $43,582 associated with U.S. plans and $87,059 associated with international plans. The weighted average discount rate used for the Company s domestic plans was approximately

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5.0% and approximately 4.9% for its international plans. The weighted average expected return on plan assets used for the Company s domestic plans was approximately 7.6% and approximately 5.4% for its international plans.

At September 30, 2010, the Company s total pension and deferred compensation benefit obligation of $214,977 consisted of $62,126 associated with U.S. plans and $152,851 associated with international plans. The fair value of the Company s assets of $125,566 consisted of $44,284 associated with U.S. plans and $81,282 associated with international plans. The weighted average discount rate used for the Company s domestic plans was approximately 5% and approximately 4.8% for its international plans. The weighted average expected return on plan assets used for the Company s domestic plans was approximately 7.5% and approximately 5.4% for its international plans.

	Pension and Deferred Compensation Benefits				Other Benefits			
	Successor Company			Predecessor Company	Successor Company			Predecessor Company
	2011	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009	2011	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Components of net periodic benefit cost								
Service cost	$ 2,543	$ 2,479	$ 211	$ 2,068	$ 11	$ 9	$ 1	$ 8
Interest cost	10,380	8,239	612	6,517	27	26	2	24
Expected return on assets	(7,829)	(5,774)	(417)	(4,253)				
Amortization of prior service cost		535		202				
Amortization of transition obligation		207						
Curtailment loss				300				
Recognized net actuarial (gain) loss	8	613		37	(52)	(58)	(5)	(53)
Net periodic cost (benefit)	$ 5,102	$ 6,299	$ 406	$ 4,871	$ (14)	$ (23)	$ (2)	$ (21)

The discount rate is used to calculate the projected benefit obligation. The discount rate used is based on the rate of return on government bonds as well as current market conditions of the respective countries where such plans are

established.

Below is a summary allocation of all pension plan assets as of the measurement date.

	Weighted Average Allocation		
	Target	Actual	
Asset Category	**2011**	**2011**	**2010**
Equity Securities	0-60%	46%	43%
Fixed Income Securities	0-40%	21%	22%
Other	0-100%	33%	35%
Total	100%	100%	100%

The weighted average expected long-term rate of return on total assets is 6.2%.

The Company has established formal investment policies for the assets associated with these plans. Policy objectives include maximizing long-term return at acceptable risk levels, diversifying among asset classes, if appropriate, and among investment managers, as well as establishing relevant risk parameters within each asset

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class. Specific asset class targets are based on the results of periodic asset liability studies. The investment policies permit variances from the targets within certain parameters. The weighted average expected long-term rate of return is based on a Fiscal 2011 review of such rates. The plan assets currently do not include holdings of SB Holdings common stock.

The Company s Fixed Income Securities portfolio is invested primarily in commingled funds and managed for overall return expectations rather than matching duration against plan liabilities; therefore, debt maturities are not significant to the plan performance.

The Company s Other portfolio consists of all pension assets, primarily insurance contracts, in the United Kingdom, Germany and the Netherlands.

The Company s expected future pension benefit payments for Fiscal 2012 through its fiscal year 2021 are as follows:

2012	$ 7,464
2013	7,763
2014	8,016
2015	8,415
2016	9,036
2017 to 2021	52,300

The following table sets forth the fair value of the Company s pension plan assets as of September 30, 2011 segregated by level within the fair value hierarchy (See Note 8, Fair Value of Financial Instruments, for discussion of the fair value hierarchy and fair value principles):

	Level 1	Level 2	Level 3	Total
U.S. Defined Benefit Plan Assets:				
Common collective trust equity	$ 16,516	$ 13,019	$	$ 29,535
Common collective trust fixed income		14,046		14,046
Total U.S. Defined Benefit Plan Assets	$ 16,516	$ 27,065	$	$ 43,581
International Defined Benefit Plan Assets:				
Common collective trust equity	$	$ 29,532	$	$ 29,532
Common collective trust fixed income		11,467		11,467
Insurance contracts general fund		37,987		37,987
Other		8,073		8,073
Total International Defined Benefit Plan Assets	$	$ 87,059	$	$ 87,059

The Company sponsors a defined contribution pension plan for its domestic salaried employees, which allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Company also sponsors defined contribution pension plans for employees of certain foreign subsidiaries. Successor Company contributions charged to operations, including discretionary amounts, for Fiscal 2011, Fiscal 2010 and the period from August 31, 2009 through September 30, 2009 were $4,999, $3,464 and $44, respectively. Predecessor Company contributions charged to operations, including discretionary amounts, for the period from October 1, 2008 through August 30, 2009 were $2,623.

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(11) Segment Information

Effective October 1, 2010, the Company began managing its business in three vertically integrated, product-focused reporting segments: (i) Global Batteries & Appliances; (ii) Global Pet Supplies; and (iii) the Home and Garden Business. (See Note 1, Description of Business, for additional information regarding the Company s realignment of its reporting segments.)

On June 16, 2010, the Company completed the Merger with Russell Hobbs. The results of Russell Hobbs operations since June 16, 2010 are in included in the Company s Consolidated Statements of Operations.

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

Net sales and Cost of goods sold to other business segments have been eliminated. The gross contribution of intersegment sales is included in the segment selling the product to the external customer. Segment net sales are based upon the segment from which the product is shipped.

The operating segment profits do not include restructuring and related charges, acquisition and integration related charges, impairment charges, reorganization items expense, net, interest expense, interest income and income tax expense. In connection with the realignment of reportable segments discussed above, as of October 1, 2010 expenses associated with certain general and administrative functions necessary to reflect the operating segments on a standalone basis have been excluded in the determination of reportable segment profits. These expenses were previously reflected in operating segment profits. Accordingly, corporate expenses primarily include general and administrative expenses and the costs of global long-term incentive compensation plans which are evaluated on a consolidated basis and not allocated to the Company s operating segments. All depreciation and amortization included in income from operations is related to operating segments or corporate expense. Costs are identified to operating segments or corporate expense according to the function of each cost center.

All capital expenditures are related to operating segments. Variable allocations of assets are not made for segment reporting.

Segment information for the Successor Company for Fiscal 2011, Fiscal 2010 and the period from August 31, 2009 through September 30, 2009 and the Predecessor Company for the period from October 1, 2008 through August 30, is as follows:

Net sales to external customers

	Successor Company			Predecessor Company
			Period from	Period from

	2011	2010	August 31, 2009 through September 30, 2009	October 1, 2008 through August 30, 2009
Global Batteries & Appliances	$ 2,254,153	$ 1,658,123	$ 146,139	$ 1,188,902
Global Pet Supplies	578,905	566,335	56,270	517,601
Home and Garden Business	353,858	342,553	17,479	304,145
Total segments	$ 3,186,916	$ 2,567,011	$ 219,888	$ 2,010,648

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Depreciation and amortization

	Successor Company			Predecessor Company
	2011	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Global Batteries & Appliances	$ 68,084	$ 57,557	$ 4,728	$ 21,933
Global Pet Supplies	24,274	28,538	2,580	19,832
Home and Garden Business	12,375	14,418	1,320	11,073
Total segments	104,733	100,513	8,628	52,838
Corporate	30,416	16,905	43	5,642
Total Depreciation and amortization	$ 135,149	$ 117,418	$ 8,671	$ 58,480

Segment profit

	Successor Company			Predecessor Company
	2011	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Global Batteries & Appliances	$ 238,864	$ 171,298	$ 6,242	$ 165,633
Global Pet Supplies	75,564	57,675	3,269	62,365
Home and Garden Business	65,180	51,192	(4,573)	46,458
Total segments	379,608	280,165	4,938	274,456
Corporate expenses	53,967	48,817	3,100	39,180
Acquisition and integration related charges	36,603	38,452		
Restructuring and related charges	28,644	24,118	1,729	44,080
Intangible asset impairment	32,450			34,391
Interest expense	208,329	277,015	16,962	172,940
Other expense (income), net	2,491	12,300	(815)	3,320

Income (loss) from continuing operations before reorganization items income taxes	$ 17,124	$ (120,537)	$ (16,038)	$ (19,455)

The Global Batteries & Appliances segment does business in Venezuela through a Venezuelan subsidiary. At January 4, 2010, the beginning of the Company s second quarter of Fiscal 2010, the Company determined that Venezuela met the definition of a highly inflationary economy under GAAP. As a result, beginning January 4, 2010, the U.S. dollar is the functional currency for the Company s Venezuelan subsidiary. Accordingly, going forward, currency remeasurement adjustments for this subsidiary s financial statements and other transactional foreign exchange gains and losses are reflected in earnings. Through January 3, 2010, prior to being designated as highly inflationary, translation adjustments related to the Venezuelan subsidiary were reflected in Shareholders equity as a component of AOCI.

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In addition, on January 8, 2010, the Venezuelan government announced its intention to devalue its currency, the Bolivar fuerte, relative to the U.S. dollar. As a result, the Company remeasured the local statement of financial position of its Venezuela entity during the second quarter of Fiscal 2010 to reflect the impact of the devaluation to the official exchange rate of 4.3 Bolivar fuerte per U.S. dollar. Based on actual exchange activity as of September 30, 2010, the Company determined that the most likely method of exchanging its Bolivar fuertes for U.S. dollars would be to formally apply with the Venezuelan government to exchange through commercial banks at the SITME rate specified by the Central Bank of Venezuela. The SITME rate as of September 30, 2010 was quoted at 5.3 Bolivar fuerte per U.S. dollar. Therefore, the Company changed the rate used to remeasure Bolivar fuerte denominated transactions as of September 30, 2010 from the official exchange rate to the 5.3 SITME rate in accordance with ASC Topic 830: Foreign Currency Matters (ASC 830) as it was the expected rate at which exchanges of Bolivar fuerte to U.S. dollars would be settled.

The designation of the Company s Venezuela entity as a highly inflationary economy and the devaluation of the Bolivar fuerte resulted in a $1,486 reduction to the Company s operating income during Fiscal 2010. The Company also reported a foreign exchange loss in Other expense (income), net, of $10,102 during Fiscal 2010 related to Bolivar fuerte denominated transactions.

As of September 30, 2011, the Company is no longer exchanging its Bolivar Fuertes for U.S. dollars through the SITME mechanism and the SITME is no longer the most likely method of exchanging its Bolivar fuertes for U.S. dollars. Therefore, the Company changed the rate used to remeasure Bolivar fuerte denominated transactions as of September 30, 2011 from the 5.3 SITME rate to the 4.3 official exchange rate in accordance with ASC 830 as it is the expected rate at which exchanges of Bolivar fuerte to U.S. dollars will be settled. The Company reported a foreign exchange gain in Other expense (income), net, of $(1,293) during Fiscal 2011 related to the change to the official exchange rate.

Segment total assets

	September 30,	
	2011	**2010**
Global Batteries & Appliances	$ 2,275,076	$ 2,477,091
Global Pet Supplies	828,202	839,191
Home and Garden Business	476,381	496,143
Total segments	3,579,659	3,812,425
Corporate	47,047	61,179
Total assets at year end	$ 3,626,706	$ 3,873,604

Segment long-lived assets(A)

	September 30, 2011	September 30, 2010
Global Batteries & Appliances	$ 1,468,617	$ 1,538,511
Global Pet Supplies	647,953	654,743
Home and Garden Business	417,078	424,523
Total segments	2,533,648	2,617,777
Corporate	44,770	56,115
Long-lived assets at year end	$ 2,578,418	$ 2,673,892

(A) Includes all of the Company s non-current assets.

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Capital expenditures

	Successor Company			Predecessor Company
	2011	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Global Batteries & Appliances	$ 25,471	$ 28,496	$ 2,311	$ 6,642
Global Pet Supplies	7,059	7,920	288	1,260
Home and Garden Business	3,630	3,890	119	164
Total segments	36,160	40,306	2,718	8,066
Corporate		10		
Total Capital expenditures	$ 36,160	$ 40,316	$ 2,718	$ 8,066

Geographic Disclosures Net sales to external customers

	Successor Company			Predecessor Company
	2011	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
United States	$ 1,780,127	$ 1,444,779	$ 113,407	$ 1,166,920
Outside the United States	1,406,789	1,122,232	106,481	843,728
Total net sales to external customers	$ 3,186,916	$ 2,567,011	$ 219,888	$ 2,010,648

Geographic Disclosures Long-lived assets(A)

	September 30,	
	2011	2010

United States	$ 1,843,869	$ 1,884,995
Outside the United States	734,549	788,897
Long-lived assets at year end	$ 2,578,418	$ 2,673,892

(A) Includes all of the Company s non-current assets.

(12) Commitments and Contingencies

The Company has provided for the estimated costs associated with environmental remediation activities at some of its current and former manufacturing sites. The Company believes that any additional liability in excess of the amounts provided of approximately $7,302, which may result from resolution of these matters, will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

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

The Company 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.

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The Company s minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease. Future minimum rental commitments under non-cancelable operating leases, principally pertaining to land, buildings and equipment, are as follows:

2012	$ 30,859
2013	24,262
2014	18,337
2015	12,180
2016	10,625
Thereafter	27,878
Total minimum lease payments	$ 124,141

All of the leases expire between October 2011 through January 2030. Successor Company s total rent expense was $40,298, $30,218 and $2,351 during Fiscal 2011, Fiscal 2010 and the period from August 31, 2009 through September 30, 2009, respectively. Predecessor Company s total rent expense was $22,132 for the period from October 1, 2008 through August 30, 2009.

(13) Related Party Transactions

Merger Agreement and Exchange Agreement

On June 16, 2010 (the Closing Date), SB Holdings completed the Merger pursuant to the Agreement and Plan of Merger, dated as of February 9, 2010, as amended on March 1, 2010, March 26, 2010 and April 30, 2010, by and among SB Holdings, Russell Hobbs, Spectrum Brands, Battery Merger Corp., and Grill Merger Corp. (the Merger Agreement). As a result of the Merger, each of Spectrum Brands and Russell Hobbs became a wholly-owned subsidiary of SB Holdings. At the effective time of the Merger, (i) the outstanding shares of Spectrum Brands common stock were canceled and converted into the right to receive shares of SB Holdings common stock, and (ii) the outstanding shares of Russell Hobbs common stock and preferred stock were canceled and converted into the right to receive shares of SB Holdings common stock.

Pursuant to the terms of the Merger Agreement, on February 9, 2010, Spectrum Brands entered into support agreements with the Harbinger Parties and Avenue International Master, L.P. and certain of its affiliates (the Avenue Parties), in which the Harbinger Parties and the Avenue Parties agreed to vote their shares of Spectrum Brands common stock acquired before the date of the Merger Agreement in favor of the Merger and against any alternative proposal that would impede the Merger.

Immediately following the consummation of the Merger, the Harbinger Parties owned approximately 64% of the outstanding SB Holdings common stock and the stockholders of Spectrum Brands (other than the Harbinger Parties) owned approximately 36% of the outstanding SB Holdings common stock.

On January 7, 2011, the Harbinger Parties contributed 27,757 shares of SB Holdings common stock to Harbinger Group Inc. (HRG) and received in exchange for such shares an aggregate of 119,910 shares of HRG common stock (such transaction, the Share Exchange), pursuant to a Contribution and Exchange Agreement (the Exchange Agreement). Immediately following the Share Exchange, (i) HRG owned approximately 54.4% of the outstanding shares of SB Holding s common stock and the Harbinger Parties owned approximately 12.7% of the outstanding shares of SB Holdings common stock, and (ii) the Harbinger Parties owned 129,860 shares of HRG common stock, or approximately 93.3% of the outstanding HRG common stock.

On June 28, 2011 the Company filed a Form S-3 registration statement with the SEC under which 1,150 shares of its common stock and 6,320 shares of the Company s common stock held by Harbinger Capital Partners Master Fund I, Ltd. were offered to the public.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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In connection with the Merger, the Harbinger Parties and SB Holdings entered into a stockholder agreement, dated February 9, 2010 (the Stockholder Agreement), which provides for certain protective provisions in favor of minority stockholders and provides certain rights and imposes certain obligations on the Harbinger Parties, including:

for so long as the Harbinger Parties and their affiliates beneficially own 40% or more of the outstanding voting securities of SB Holdings, the Harbinger Parties and the Company will cooperate to ensure, to the greatest extent possible, the continuation of the structure of the SB Holdings board of directors as described in the Stockholder Agreement;

the Harbinger Parties will not effect any transfer of equity securities of SB Holdings to any person that would result in such person and its affiliates owning 40% or more of the outstanding voting securities of SB Holdings, unless specified conditions are met; and

the Harbinger Parties will be granted certain access and informational rights with respect to SB Holdings and its subsidiaries.

Pursuant to a joinder to the Stockholder Agreement entered into by the Harbinger Parties and HRG, upon consummation of the Share Exchange, HRG became a party to the Stockholder Agreement, and is subject to all of the covenants, terms and conditions of the Stockholder Agreement to the same extent as the Harbinger Parties were bound thereunder prior to giving effect to the Share Exchange.

Certain provisions of the Stockholder Agreement terminate on the date on which the Harbinger Parties or HRG no longer constitutes a Significant Stockholder (as defined in the Stockholder Agreement). The Stockholder Agreement terminates when any person (including the Harbinger Parties or HRG) acquires 90% or more of the outstanding voting securities of SB Holdings.

Also in connection with the Merger, the Harbinger Parties and SB Holdings entered into a registration rights agreement, dated as of February 9, 2010 (the SB Holdings Registration Rights Agreement), pursuant to which the Harbinger Parties have, among other things and subject to the terms and conditions set forth therein, certain demand and so-called piggy back registration rights with respect to their shares of SB Holdings common stock. On September 10, 2010, the Harbinger Parties and HRG entered into a joinder to the SB Holdings Registration Rights Agreement, pursuant to which, effective upon the consummation of the Share Exchange, HRG will become a party to the SB Holdings Registration Rights Agreement, entitled to the rights and subject to the obligations of a holder thereunder.

Other Agreements

On August 28, 2009, in connection with Spectrum Brands emergence from Chapter 11 reorganization proceedings, Spectrum Brands entered into a registration rights agreement with the Harbinger Parties, the Avenue Parties and D.E. Shaw Laminar Portfolios, L.L.C. (D.E. Shaw), pursuant to which the Harbinger Parties, the Avenue Parties and D.E. Shaw have, among other things and subject to the terms and conditions set forth therein, certain demand and so-called piggy back registration rights with respect to their holdings of Spectrum Brands 12% Notes.

In connection with the Merger, Russell Hobbs and Harbinger Master Fund entered into an indemnification agreement, dated as of February 9, 2010 (the Indemnification Agreement), by which Harbinger Master Fund agreed, among other things and subject to the terms and conditions set forth therein, to guarantee the obligations of Russell Hobbs to pay (i) a reverse termination fee to Spectrum Brands under the merger agreement and (ii) monetary damages awarded to Spectrum Brands in connection with any willful and material breach by Russell Hobbs of the Merger Agreement. The maximum amount payable by Harbinger Master Fund under the Indemnification Agreement was $50,000 less any amounts paid by Russell Hobbs or the Harbinger Parties, or any of their respective affiliates as damages under any documents related to the Merger. No such amounts became due

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under the Indemnification Agreement. Harbinger Master Fund also agreed to indemnify Russell Hobbs, SB Holdings and their subsidiaries for out-of-pocket costs and expenses above $3,000 in the aggregate that become payable after the consummation of the Merger and that relate to the litigation arising out of Russell Hobbs business combination transaction with Applica. In February 2011, the parties to the litigation reached a full and final settlement of their disputes. Neither the Company, Applica or any other subsidiary of the Company was required to make any payments in connection with the settlement.

(14) Restructuring and Related Charges

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

The Company reports restructuring and related charges relating to administrative functions in Operating expenses, such as initiatives impacting sales, marketing, distribution, or other non-manufacturing related functions. Restructuring and related charges reflected in Operating expenses include, but are not limited to, termination and related costs, any asset impairments relating to the functional areas described above, and other costs directly related to the initiatives implemented as well as consultation, legal and accounting fees related to the evaluation of the Predecessor Company s capital structure incurred prior to the Bankruptcy Filing.

The following table summarizes restructuring and related charges incurred by segment:

	Successor Company			Predecessor Company
	2011	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Cost of goods sold:				
Global Batteries & Appliances	$ 756	$ 3,275	$ 173	$ 11,857
Global Pet Supplies	7,085	3,837	5	1,332
Home and Garden Business		38		
Total restructuring and related charges in cost of goods sold	7,841	7,150	178	13,189
Operating expense:				
Global Batteries & Appliances	5,338	251	370	8,393
Global Pet Supplies	9,567	2,917	35	4,411
Home and Garden Business	2,704	8,419	993	5,323
Corporate	3,194	5,381	153	12,764

Total restructuring and related charges in operating expense	20,803	16,968	1,551	30,891
Total restructuring and related charges	$ 28,644	$ 24,118	$ 1,729	$ 44,080

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The following table summarizes restructuring and related charges incurred by type of charge:

	Successor Company			Predecessor Company
	2011	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Costs included in cost of goods sold:				
United & Tetra integration:				
Termination benefits	$	$	$	$ 6
European initiatives:				
Other associated costs			7	11
Latin America initiatives:				
Termination benefits				207
Global Realignment initiatives:				
Termination benefits		187		333
Other associated costs		(102)		869
Ningbo Exit Plan:				
Termination benefits		14		857
Other associated costs	273	2,148	165	8,461
Global Cost Reduction initiatives:				
Termination benefits	1,679	2,630		200
Other associated costs	5,889	2,273	6	2,245
Total included in cost of goods sold	7,841	7,150	178	13,189
Costs included in operating expenses:				
Breitenbach, France facility closure:				
Other associated costs				(7)
United & Tetra integration:				
Termination benefits				2,297
Other associated costs			(132)	427
European initiatives:				
Termination benefits	(251)	(92)		
Global Realignment:				
Termination benefits	1,207	5,361	94	6,994
Other associated costs	1,931	(1,841)	45	3,440
Ningbo Exit Plan:				
Other associated costs				1,334
Global Cost Reduction initiatives:				
Termination benefits	10,155	4,268	866	5,690

Other associated costs	7,761	9,272	678	10,716
Total included in operating expenses	20,803	16,968	1,551	30,891
Total restructuring and related charges	$ 28,644	$ 24,118	$ 1,729	$ 44,080

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2009 Restructuring Initiatives

The Company implemented a series of initiatives within the Global Batteries & Appliances segment, the Global Pet Supplies segment and the Home and Garden Business segment to reduce operating costs, and to evaluate opportunities to improve the Company s capital structure (the Global Cost Reduction Initiatives). These initiatives include headcount reductions within each of the Company s segments and the exit of certain facilities in the U.S. related to the Global Pet Supplies and Home and Garden Business segments. These initiatives also include consultation, legal and accounting fees related to the evaluation of the Company s capital structure. Costs associated with these initiatives since inception, which are expected to be incurred through January 31, 2015, are projected at approximately $78,000.

The Successor Company recorded $25,484, $18,443 and $1,550 of pretax restructuring and related charges during Fiscal 2011, Fiscal 2010 and the period from August 31, 2009 through September 30, 2009, respectively. The Predecessor Company recorded $18,850 of pretax restructuring and related charges during the period from October 1, 2008 through August 30, 2009 related to the Global Cost Reduction Initiatives.

Global Cost Reduction Initiatives Summary

The following table summarizes the remaining accrual balance associated with the Global Cost Reduction Initiatives and activity that occurred during Fiscal 2011:

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2010	$ 6,447	$ 4,005	$ 10,452
Provisions	10,423	1,319	11,742
Cash expenditures	(8,286)	(2,890)	(11,176)
Non-cash items	211	587	798
Accrual balance at September 30, 2011	$ 8,795	$ 3,021	$ 11,816
Expensed as incurred(A)	$ 1,411	$ 12,331	$ 13,742

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

The following table summarizes the expenses incurred by the Successor Company during Fiscal 2011, the cumulative amount incurred from inception of the initiative through September 30, 2011 and the total future expected costs to be incurred associated with the Global Cost Reduction Initiatives by operating segment:

	Global Batteries and Appliances	Global Pet Supplies	Home and Garden	Corporate	Total

Restructuring and related charges incurred during Fiscal 2011	$ 6,128	$ 16,652	$ 2,704	$	$ 25,484
Restructuring and related charges incurred since initiative inception	$ 13,167	$ 26,862	$ 16,708	$ 7,591	$ 64,328
Total future estimated restructuring and related charges expected to be incurred	$	$ 10,600	$ 2,987	$	$ 13,587

2008 Restructuring Initiatives

The Company implemented an initiative within the Global Batteries & Appliances segment in China to reduce operating costs and rationalize the Company s manufacturing structure. These initiatives, which are complete, include the plan to exit the Company s Ningbo battery manufacturing facility in China (the Ningbo Exit Plan).

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The Company has recorded pretax restructuring and related charges of $29,651 since the inception of the Ningbo Exit Plan.

The Successor Company recorded $273, $2,162 and $165 of pretax restructuring and related charges during Fiscal 2011, Fiscal 2010 and the period from August 31, 2009 through September 30, 2009, respectively. The Predecessor Company recorded $10,652 of pretax restructuring and related charges during the period from October 1, 2008 through August 30, 2009, in connection with the Ningbo Exit Plan.

The following table summarizes the remaining accrual balance associated with the Ningbo Exit Plan and activity that occurred during Fiscal 2011:

Ningbo Exit Plan Summary

		Other Costs
Accrual balance at September 30, 2010	$	491
Provisions		24
Cash expenditures		(143)
Non-cash items		(372)
Accrual balance at September 30, 2011	$	
Expensed as incurred(A)	$	249

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

2007 Restructuring Initiatives

In Fiscal 2007, the Company began managing its business in three vertically integrated, product-focused reporting segments: Global Batteries & Personal Care (which, effective October 1, 2010, includes the appliance portion of Russell Hobbs, collectively, Global Batteries & Appliances), Global Pet Supplies and the Home and Garden Business. As part of this realignment, the Company undertook a number of cost reduction initiatives, primarily headcount reductions, at the corporate and operating segment levels (the Global Realignment Initiatives). Costs associated with these initiatives since inception, which are expected to be incurred through June 30, 2013, relate primarily to severance and are projected at approximately $92,500, the majority of which are cash costs.

In connection with the Global Realignment Initiatives, the Successor Company recorded $3,138, $3,605 and $138 of restructuring and related charges during Fiscal 2011, Fiscal 2010 and the period from August 31, 2009 through September 30, 2009, respectively. The Predecessor Company recorded $11,635 of pretax restructuring and related charges during the period from October 1, 2008 through August 30, 2009, related to the Global Realignment Initiatives.

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The following table summarizes the remaining accrual balance associated with the Global Realignment Initiatives and activity that occurred during Fiscal 2011:

Global Realignment Initiatives Summary

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2010	$ 8,721	$ 2,281	$ 11,002
Provisions	1,207	71	1,278
Cash expenditures	(7,394)	(832)	(8,226)
Non-cash items	(5)	322	317
Accrual balance at September 30, 2011	$ 2,529	$ 1,842	$ 4,371
Expensed as incurred(A)	$	$ 1,860	$ 1,860

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

The following table summarizes the expenses incurred by the Successor Company during Fiscal 2011, the cumulative amount incurred from inception of the initiative through September 30, 2011 and the total future expected costs to be incurred associated with the Global Realignment Initiatives by operating segment:

	Global Batteries and Appliances	Home and Garden	Corporate	Total
Restructuring and related charges incurred during Fiscal 2011	$ (56)	$	$ 3,194	$ 3,138
Restructuring and related charges incurred since initiative inception	$ 46,613	$ 6,762	$ 38,350	$ 91,725
Total future restructuring and related charges expected	$	$	$ 702	$ 702

2006 Restructuring Initiatives

The Company implemented a series of initiatives within the Global Batteries & Appliances segment in Europe to reduce operating costs and rationalize the Company s manufacturing structure (the European Initiatives). These initiatives, which are substantially complete, include the relocation of certain operations at the Ellwangen, Germany packaging center to the Dischingen, Germany battery plant, transferring private label battery production at the Company s Dischingen, Germany battery plant to the Company s manufacturing facility in China and restructuring its

sales, marketing and support functions. The Company has recorded pretax restructuring and related charges of $26,714 since the inception of the European Initiatives.

The Company recorded $(251), $(92) and $7 of pretax restructuring and related charges during Fiscal 2011, Fiscal 2010 and the period from August 31, 2009 through September 30, 2009, respectively. The Predecessor Company recorded $11 during the period from October 1, 2008 through August 30, 2009, related to the European Initiatives.

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The following table summarizes the remaining accrual balance associated with the 2006 initiatives and activity that occurred during Fiscal 2011:

European Initiatives Summary

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2010	$ 1,801	$ 47	$ 1,848
Provisions	(251)		(251)
Cash expenditures	(638)	(47)	(685)
Non-cash items	(912)		(912)
Accrual balance at September 30, 2011	$	$	$

(15) Acquisitions

Russell Hobbs

On June 16, 2010, the Company consummated the Merger, pursuant to which Spectrum Brands became a wholly-owned subsidiary of the Company and Russell Hobbs became a wholly owned subsidiary of Spectrum Brands. Russell Hobbs is a designer, marketer and distributor of a broad range of branded small household appliances. Russell Hobbs markets and distributes small kitchen and home appliances, pet and pest products and personal care products. Russell Hobbs has a broad portfolio of recognized brand names, including Black & Decker, George Foreman, Russell Hobbs, Toastmaster, LitterMaid, Farberware, Breadman and Juiceman. Russell Hobbs customers include mass merchandisers, specialty retailers and appliance distributors primarily in North America, South America, Europe and Australia.

The results of Russell Hobbs operations since June 16, 2010 are included in the Company s Consolidated Statements of Operations. Effective October 1, 2010, substantially all of the financial results of Russell Hobbs are reported within the Global Batteries & Appliances segment. In addition, certain pest control and pet products included in the former Small Appliances segment have been reclassified into the Home and Garden Business and Global Pet Supplies segments, respectively.

In accordance with ASC Topic 805, *Business Combinations* (ASC 805), the Company accounted for the Merger by applying the acquisition method of accounting. The acquisition method of accounting requires that the consideration transferred in a business combination be measured at fair value as of the closing date of the acquisition. After consummation of the Merger, the stockholders of Spectrum Brands, inclusive of the Harbinger Parties, owned approximately 60% of SB Holdings and the stockholders of Russell Hobbs owned approximately 40% of SB Holdings. Inasmuch as Russell Hobbs was a private company and its common stock was not publicly traded, the closing market price of the Spectrum Brands common stock at June 16, 2010 was used to calculate the purchase price. The total purchase price of Russell Hobbs was approximately $597,579 determined as follows:

Spectrum Brands closing price per share on June 16, 2010	$	28.15
Purchase price Russell Hobbs allocation 20,704 shares(1)(2)	$	575,203
Cash payment to pay off Russell Hobbs North American credit facility		22,376
Total purchase price of Russell Hobbs	$	597,579

(1) Number of shares calculated based upon conversion formula, as defined in the Merger Agreement, using balances as of June 16, 2010.

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share amounts)

(2) The fair value of 271 shares of unvested restricted stock units as they relate to post combination services will be recorded as operating expense over the remaining service period and were assumed to have no fair value for the purchase price.

Purchase Price Allocation

The total purchase price for Russell Hobbs was allocated to the net tangible and intangible assets based upon their fair values at June 16, 2010 as set forth below. The excess of the purchase price over the net tangible assets and intangible assets was recorded as goodwill. The measurement period for the Merger has closed, during which no adjustments were made to the preliminary purchase price allocation. The final purchase price allocation for Russell Hobbs is as follows:

Current assets	$ 307,809
Property, plant and equipment	15,150
Intangible assets	363,327
Goodwill(A)	120,079
Other assets	15,752
Total assets acquired	$ 822,117
Current liabilities	142,046
Total debt	18,970
Long-term liabilities	63,522
Total liabilities assumed	$ 224,538
Net assets acquired	$ 597,579

(A) Consists of $25,426 of tax deductible Goodwill.

Pre-Acquisition Contingencies Assumed

The Company has evaluated pre-acquisition contingencies relating to Russell Hobbs that existed as of the acquisition date. Based on the evaluation, the Company has determined that certain pre-acquisition contingencies are probable in nature and estimable as of the acquisition date. Accordingly, the Company has recorded its best estimates for these contingencies as part of the purchase price allocation for Russell Hobbs. As the measurement period has closed, adjustments to pre-acquisition contingency amounts are reflected in the Company s results of operations.

ASC 805 requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. Accordingly, the Company performed a valuation of the assets and liabilities of Russell Hobbs at June 16, 2010. Significant adjustments as a result of the purchase price allocation are summarized as

follows:

Inventories An adjustment of $1,721 was recorded to adjust inventory to fair value. Finished goods were valued at estimated selling prices less the sum of costs of disposal and a reasonable profit allowance for the selling effort.

Deferred tax liabilities, net An adjustment of $43,086 was recorded to adjust deferred taxes for the fair value allocations made in accounting for the purchase.

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SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share amounts)

Property, plant and equipment, net An adjustment of $(455) was recorded to adjust the net book value of property, plant and equipment to fair value giving consideration to their highest and best use. The valuation of the Company s property, plant and equipment were based on the cost approach.

Certain indefinite-lived intangible assets were valued using a relief from royalty methodology. Customer relationships and certain definite-lived intangible assets were valued using a multi-period excess earnings method. The total fair value of indefinite and definite lived intangibles was $363,327 as of June 16, 2010. A summary of the significant key inputs is as follows:

The Company valued customer relationships using the income approach, specifically the multi-period excess earnings method. In determining the fair value of the customer relationship, the multi-period excess earnings approach values the intangible asset at the present value of the incremental after-tax cash flows attributable only to the customer relationship after deducting contributory asset charges. The incremental after-tax cash flows attributable to the subject intangible asset are then discounted to their present value. Only expected sales from current customers were used, which included an expected growth rate of 3%. The Company assumed a customer retention rate of approximately 93%, which was supported by historical retention rates. Income taxes were estimated at 36% and amounts were discounted using a rate of 15.5%. The customer relationships were valued at $38,000 under this approach.

The Company valued trade names and trademarks using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade name was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of Russell Hobbs related trademarks and trade names, other similar trademark licensing and transaction agreements and the relative profitability and perceived contribution of the trademarks and trade names. Royalty rates used in the determination of the fair values of trade names and trademarks ranged from 2.0% to 5.5% of expected net sales related to the respective trade names and trademarks. The Company anticipates using the majority of the trade names and trademarks for an indefinite period as demonstrated by the sustained use of each subject trademark. In estimating the fair value of the trademarks and trade names, Net sales for significant trade names and trademarks were estimated to grow at a rate of 1%-14% annually with a terminal year growth rate of 3%. Income taxes were estimated in a range of 30%-38% and amounts were discounted using rates between 15.5%-16.5%. Trade name and trademarks were valued at $170,930 under this approach.

The Company valued a trade name license agreement using the income approach, specifically the multi-period excess earnings method. In determining the fair value of the trade name license agreement, the multi-period excess earnings approach values the intangible asset at the present value of the incremental after-tax cash flows attributable only to the trade name license agreement after deducting contributory asset charges. The incremental after-tax cash flows attributable to the subject intangible asset are then discounted to their present value. In estimating the fair value of the trade name license agreement, net sales were estimated to grow at a rate of (3)%-1% annually. The Company assumed a twelve year useful life of the trade name license agreement. Income taxes were estimated at 37% and amounts were discounted using a rate of 15.5%. The trade name license agreement was valued at $149,200 under this approach.

The Company valued technology using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the technology was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of Russell Hobbs related licensing agreements and the importance of the technology and profit levels, among other considerations. Royalty rates used in the determination of the fair values of technologies were 2% of expected net sales related to the respective technology. The Company anticipates using these technologies through the legal life of the underlying patent and therefore the expected life of these technologies was equal to the remaining legal life of the underlying patents ranging from 9 to

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SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share amounts)

11 years. In estimating the fair value of the technologies, net sales were estimated to grow at a rate of 3%-12% annually. Income taxes were estimated at 37% and amounts were discounted using the rate of 15.5%. The technology assets were valued at $4,100 under this approach.

Supplemental Pro Forma Information (Unaudited)

The following reflects the Company s pro forma results had the results of Russell Hobbs been included for all periods beginning after September 30, 2008 through Fiscal 2010.

	Successor Company		Predecessor Company
	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Net sales:			
Reported Net sales	$ 2,567,011	$ 219,888	$ 2,010,648
Russell Hobbs adjustment	543,952	64,641	711,046
Pro forma Net sales	$ 3,110,963	$ 284,529	$ 2,721,694
(Loss) income from continuing operations:			
Reported (loss) income from continuing operations	$ (187,372)	$ (71,193)	$ 1,100,743
Russell Hobbs adjustment	(5,504)	(2,284)	(25,121)
Pro forma (loss) income from continuing operations	$ (192,876)	$ (73,477)	$ 1,075,622
Basic and Diluted earnings per share from continuing operations(A):			
Reported Basic and Diluted earnings per share from continuing operations	$ (5.20)	$ (2.37)	$ 21.45
Russell Hobbs adjustment	(0.16)	(0.08)	(0.49)
Pro forma basic and diluted earnings per share from continuing operations	$ (5.36)	$ (2.45)	$ 20.96

(A) The Company has not assumed the exercise of common stock equivalents as the impact would be antidilutive.

Seed Resources

On December 3, 2010, the Company completed the $10,524 cash acquisition of Seed Resources. Seed Resources is a wild bird seed cake producer through its Birdola premium brand seed cakes. This acquisition was not significant individually. In accordance with ASC 805, the Company accounted for the acquisition by applying the acquisition method of accounting.

The results of Seed Resources operations since December 3, 2010 are included in the Company s Consolidated Statements of Operations and are reported as part of the Global Pet Supplies business segment. The preliminary purchase price of $12,500, which includes a $1,476 sales earn out and a $500 manufacturing earn out, has been allocated to the acquired net assets, including a $1,100 trade name intangible asset and $10,029 of goodwill. The Company s estimates and assumptions for this acquisition are subject to change as the Company obtains additional information for its estimates during the respective measurement period. The primary areas of the purchase price

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share amounts)

allocation that are not yet finalized relate to certain legal matters, income and non-income based taxes and residual goodwill.

(16) Discontinued Operations

On November 11, 2008, the Predecessor Board approved the shutdown of the growing products portion of the Home and Garden Business, which included the manufacturing and marketing of fertilizers, enriched soils, mulch and grass seed. The decision to shutdown the growing products portion of the Home and Garden Business was made only after the Predecessor Company was unable to successfully sell this business, in whole or in part. The shutdown of the growing products portion of the Home and Garden Business was completed during the second quarter of Fiscal 2009.

The presentation herein of the results of continuing operations has been changed to exclude the growing products portion of the Home and Garden Business for all periods presented. The following amounts have been segregated from continuing operations and are reflected as discontinued operations for Fiscal 2010, the period from August 31, 2009 through September 30, 2009, and the period from October 1, 2008 through August 30, 2009, respectively:

	Successor Company		Predecessor Company
	2010	Period from August 31, 2009 through September 30, 2009	Period from October 1, 2008 through August 30, 2009
Net sales	$	$	$ 31,306
(Loss) income from discontinued operations before income taxes	$ (2,512)	$ 408	$ (91,293)
Provision for income tax expense (benefit)	223		(4,491)
(Loss) income from discontinued operations, net of tax	$ (2,735)	$ 408	$ (86,802)

The Company did not record any (loss) income from discontinued operations in Fiscal 2011.

(17) New Accounting Pronouncements

Recently Adopted Accounting Guidance

Variable Interest Entities

In June 2009, the Financial Accounting Standards Board (FASB) issued new accounting guidance requiring an enterprise to perform an analysis to determine whether the enterprise s variable interest or interests give it a controlling

financial interest in a variable interest entity. The new guidance also requires enhanced disclosures that will provide users of financial statements with more transparent information about an enterprise s involvement in a variable interest entity. The Company adopted the new guidance on October 1, 2010 and the adoption did not impact the Company s financial statements and related disclosures.

Revenue Recognition Multiple-Element Arrangements

In October 2009, the FASB issued new accounting guidance addressing the accounting for multiple-deliverable arrangements to enable entities to account for products or services (deliverables) separately rather than as a combined unit. The provisions establish the accounting and reporting guidance for arrangements under which the entity will perform multiple revenue-generating activities. Specifically, this guidance addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of accounting. The

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share amounts)

Company adopted the new guidance on October 1, 2010 and the adoption did not impact the Company s financial statements and related disclosures.

Recently Issued Accounting Guidance

Fair Value Measurement

In May 2011, the FASB issued amended accounting guidance to achieve a consistent definition of and common requirements for measurement of and disclosure concerning fair value between GAAP and International Financial Reporting Standards. This amended guidance is effective for the Company beginning in the second quarter of its fiscal year ending September 30, 2012. The Company is currently evaluating the impact of this new accounting guidance on its Consolidated Financial Statements.

Presentation of Comprehensive Income

In June 2011, the FASB issued new accounting guidance which requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. This accounting guidance is effective for the Company for the fiscal year beginning October 1, 2012. Early adoption is permitted. The Company is currently evaluating the impact of this new accounting guidance on its Consolidated Financial Statements.

Testing for Goodwill Impairment

During September 2011, the FASB issued new accounting guidance intended to simplify how an entity tests goodwill for impairment. The guidance will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting guidance is effective for the Company for the annual and any interim goodwill impairment tests performed for the fiscal year beginning October 1, 2012. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a significant impact on its Consolidated Financial Statements.

(18) Subsequent Events

ASC 855, Subsequent Events, (ASC 855), establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 requires the Company to evaluate all subsequent events that occur after the balance sheet date through the date and time the Company s financial statements are issued. The Company has evaluated subsequent events through the date these financial statements were issued.

On November 1, 2011, the Company completed the $43,750 cash acquisition of certain trade name brands from The Homax Group, Inc., a portfolio company of Olympus Partners. In accordance with ASC 805, the Company will account for the acquisition by applying the acquisition method of accounting and include the fair value of acquired assets within the Company s Home and Garden Business segment. The Company is in process of preparing the

preliminary purchase price allocation.

On November 2, 2011, the Company offered $200,000 aggregate principal amount of 9.5% Notes at a price of 108.50% of the par value; these notes are in addition to the $750,000 aggregative principal amount of 9.5% Notes already outstanding. The additional notes are guaranteed by Spectrum Brands parent company, SB/RH Holdings, LLC, as well as by existing and future domestic restricted subsidiaries and secured by liens on substantially all of the Company s and the guarantors assets. The additional notes will vote together with the existing 9.5% Notes.

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SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(In thousands, except per share amounts)

On December 5, 2011, the Company signed a definitive agreement to acquire all of the issued and outstanding common stock of FURminator, Inc. for $140,000 in cash. The transaction is subject to customary closing and regulatory approvals. In accordance with ASC 805, the Company will account for the acquisition by applying the acquisition method of accounting and include the fair value of acquired assets and liabilities within the Company s Global Pet Supplies segment. The Company is in process of preparing the preliminary purchase price allocation.

(19) Quarterly Results (unaudited)

Fiscal 2011:

	Successor Company Quarter Ended			
	September 30, 2011	**July 3, 2011**	**April 3, 2011**	**January 2, 2011**
Net sales	$ 827,329	$ 804,635	$ 693,885	$ 861,067
Gross profit	280,495	293,694	255,439	299,239
Net (loss) income	(33,831)	28,604	(50,186)	(19,758)
Basic net (loss) income per common share	$ (0.65)	$ 0.56	$ (0.99)	$ (0.39)
Diluted net (loss) income per common share	$ (0.65)	$ 0.56	$ (0.99)	$ (0.39)

Fiscal 2010:

	Successor Company Quarter Ended			
	September 30, 2010	**July 4, 2010**	**April 4, 2010**	**January 3, 2010**
Net sales	$ 788,999	$ 653,486	$ 532,586	$ 591,940
Gross profit	274,499	252,869	209,580	184,462
Net loss	(24,317)	(86,507)	(19,034)	(60,249)
Basic net loss per common share	$ (0.48)	$ (2.53)	$ (0.63)	$ (2.01)
Diluted net loss per common share	$ (0.48)	$ (2.53)	$ (0.63)	$ (2.01)

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SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
For the year ended September 30, 2011, the year ended September 30, 2010, the period from August 31, 2009 through September 30, 2009 and the period from October 1, 2008 through August 30, 2009
(In thousands)

Column A Descriptions	Column B Balance at Beginning of Period	Column C Additions Charged to Costs and Expenses	Column D Deductions		Column E Balance at End of Period
			Deductions	Other Adjustments(A)	
September 30, 2011 (Successor Company):					
Accounts receivable allowances	$ 4,351	$ 9,777	$	$	$ 14,128
September 30, 2010 (Successor Company):					
Accounts receivable allowances	$ 1,011	$ 3,340	$	$	$ 4,351
September 30, 2009 (Successor Company):					
Accounts receivable allowances	$	$ 1,011	$	$	$ 1,011
August 30, 2009 (Predecessor Company):					
Accounts receivable allowances	$ 18,102	$ 1,763	$ 3,848	$ 16,017	$

(A) The Other Adjustment in the period from October 1, 2008 through August 30, 2009, represents the elimination of Accounts receivable allowances through fresh-start reporting as a result of the Company s emergence from Chapter 11 of the Bankruptcy Code.

See accompanying Report of Independent Registered Public Accounting Firm

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2. HARBINGER F&G, LLC AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS.

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Independent Auditors Report

The Board of Directors
Harbinger F&G, LLC.:

We have audited the accompanying consolidated balance sheet of Harbinger F&G, LLC and subsidiaries (the Company) as of September 30, 2011, and the related consolidated statements of operations, member s equity and comprehensive income, and cash flows for the year then ended. In connection with our audit of the consolidated financial statements, we have also audited financial statement Schedule I. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Harbinger F&G, LLC and subsidiaries as of September 30, 2011, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP
Baltimore, Maryland
December 13, 2011

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HARBINGER F&G, LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET
(In thousands)

	September 30, 2011
ASSETS	
Investments (Notes 3 and 4):	
Fixed maturity securities available-for-sale, at fair value	$ 15,367,474
Equity securities available-for-sale, at fair value	287,043
Derivative investments	52,335
Other invested assets	44,279
Total investments	15,751,131
Cash and cash equivalents	820,903
Accrued investment income	212,848
Reinsurance recoverable (Note 13)	1,596,790
Intangibles, net (Note 6)	457,167
Deferred tax assets (Note 11)	211,641
Other assets	346,322
Total assets	$ 19,396,802
LIABILITIES AND MEMBER S EQUITY	
Contractholder funds (Note 2)	$ 14,549,970
Future policy benefits (Note 2)	3,598,208
Liability for policy and contract claims	56,650
Note payable (Note 8)	95,000
Other liabilities (Note 7)	428,837
Total liabilities	18,728,665
Member s equity (Note 9):	
Contributed capital	379,359
Retained earnings	129,285
Accumulated other comprehensive income	159,493
Total member s equity	668,137
Total liabilities and member s equity	$ 19,396,802

See accompanying notes to consolidated financial statements.

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HARBINGER F&G, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands)

		Year Ended September 30, 2011
Revenues:		
Premiums	$	39,002
Net investment income (Note 3)		369,840
Net investment losses (Note 3)		(166,891)
Insurance and investment product fees and other		48,915
Total revenues		290,866
Benefits and expenses:		
Benefits and other changes in policy reserves		247,632
Acquisition and operating expenses, net of deferrals		95,778
Amortization of intangibles (Note 6)		(11,115)
Total benefits and expenses		332,295
Operating loss		(41,429)
Interest expense		(1,926)
Bargain purchase gain from business acquisition (Note 16)		151,077
Other income, net		31
Income before income taxes		107,753
Income tax benefit (Note 11)		41,744
Net income	$	149,497
Supplemental disclosures:		
Total other-than-temporary impairments	$	(17,466)
Less non-credit portion of other-than-temporary impairments included in other comprehensive income		500
Net other-than-temporary impairments		(17,966)
Losses on derivative instruments		(170,752)
Other realized investment gains		21,827
Total net investment losses	$	(166,891)

See accompanying notes to consolidated financial statements.

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HARBINGER F&G, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF MEMBER S EQUITY AND COMPREHENSIVE INCOME
(In thousands)

	Contributed Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Member s Equity
Balance, October 1, 2010	$ 491	$ (212)	$	$ 279
Net income		149,497		149,497
Unrealized investment gains, net			159,302	159,302
Non-credit related other-than-temporary impairments			191	191
Comprehensive income				308,990
Capital contributions from Harbinger Group Inc.	377,152			377,152
Capital contributions from Harbinger Capital Partners Master Fund I, Ltd. to Front Street Re, Ltd.	1,716			1,716
Dividend		(20,000)		(20,000)
Balance, September 30, 2011	$ 379,359	$ 129,285	$ 159,493	$ 668,137

See accompanying notes to consolidated financial statements.

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HARBINGER F&G, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands)

	Year Ended September 30, 2011
Cash flows from operating activities:	
Net income	$ 149,497
Adjustments to reconcile net income to net cash provided by operating activities:	
Bargain purchase gain from business acquisition	(151,077)
Net recognized losses on investments	166,891
Deferred income taxes	(40,869)
Amortization of fixed maturity discounts and premiums	59,937
Amortization of intangibles	(11,115)
Deferred policy acquisition costs	(41,152)
Interest credited/index credit to contractholder account balances	140,004
Call option collateral	(148,420)
Charges assessed to contractholders for mortality and administration	(28,358)
Cash transferred to reinsurer	(52,585)
Changes in operating assets and liabilities:	
Reinsurance recoverable	(39,446)
Accrued investment income	1,674
Future policy benefits	(6,337)
Liability for policy and contract claims	(3,750)
Other operating	(20,302)
Net cash used in operating activities	(25,408)
Cash flows from investing activities:	
Cash acquired of $1,040,470, net of acquisition cost of $345,000	695,470
Proceeds from investments, sold, matured or repaid:	
Fixed maturities	1,468,427
Equity securities	13,768
Derivative investments and other invested assets	86,437
Cost of investments acquired:	
Fixed maturities	(1,285,951)
Derivative investments and other invested assets	(66,905)
Other investing	(8,387)
Net cash provided by investing activities	902,859
Cash flows from financing activities:	
Contractholder account deposits	494,956
Contractholder account withdrawals	(959,961)
Capital contributions	378,868
Advances from Harbinger Group Inc.	49,339

Dividend paid		(20,000)
Net cash used in financing activities		(56,798)
Net increase in cash and cash equivalents		820,653
Cash and cash equivalents, beginning of year		250
Cash and cash equivalents, end of year	$	820,903
Supplemental disclosures of cash flow information:		
Interest paid	$	1,926
Income taxes paid		

See accompanying notes to consolidated financial statements.

HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollar amounts in thousands)

(1) Basis of Presentation and Nature of Operations

Harbinger F&G, LLC (HFG and, collectively with its subsidiaries, the Company) is a direct, wholly-owned subsidiary of Harbinger Group Inc. (HGI). HGI is a diversified holding company focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries. HGI s shares of common stock trade on the New York Stock Exchange (NYSE) under the symbol HRG.

HFG was formed on August 3, 2010 under the name of Harbinger OM, LLC, a Delaware limited liability company, which was at that time wholly-owned by Harbinger Capital Partners Master Fund I, Ltd. (the Master Fund), a 68.8% holder of the outstanding common stock of HGI. On March 9, 2011, the Master Fund contributed its 100% membership interest in Harbinger OM, LLC to HGI pursuant to a transfer agreement discussed further in Note 14, Related Party Transactions. In connection therewith, the Master Fund transferred to HFG its 100% ownership of FS Holdco Ltd. (FS Holdco), the ultimate parent company of Front Street Re Ltd. (Front Street), a Bermuda-based reinsurer which commenced start-up operations in August 2010. On April 8, 2011, HGI caused the name of Harbinger OM, LLC to be changed to Harbinger F&G, LLC.

The contribution of HFG, including FS Holdco and Front Street, to HGI is considered a transaction between entities under common control of the Master Fund under Accounting Standards Codification (ASC) Topic 805, *Business Combinations,* and is accounted for similar to the pooling of interest method. In accordance with the guidance in ASC Topic 805, the assets and liabilities transferred between entities under common control are recorded by the receiving entity based on their carrying amounts (or at the historical cost basis of the parent, if these amounts differ). Accordingly, FS Holdco and Front Street are reflected in the accompanying consolidated financial statements at the historical cost basis of the Master Fund, as if they were held by HFG from their inception. Other than FS Holdco and Front Street, HFG had no assets, liabilities or operations at the date it was contributed to HGI. As of September 30, 2010, Front Street had received cumulative capital contributions of $491 from the Master Fund and incurred general and administrative start-up costs of $212 which are reflected as the opening balances of contributed capital and accumulated deficit, respectively, in the accompanying consolidated statement of member s equity for the year ended September 30, 2011.

As discussed further in Note 16, Acquisition, on April 6, 2011 (the FGL Acquisition Date), the Company acquired Fidelity & Guaranty Life Holdings, Inc. (formerly, Old Mutual U.S. Life Holdings, Inc.), a Delaware corporation (FGL), from OM Group (UK) Limited (OMGUK). Such acquisition (the FGL Acquisition) has been accounted for using the acquisition method of accounting. Accordingly, the results of FGL s operations have been included in the Company s financial statements commencing April 6, 2011.

FGL s primary business is the sale of individual life insurance products and annuities through independent agents, managing general agents, and specialty brokerage firms and in selected institutional markets. FGL s principal products are deferred annuities (including fixed index annuity (FIA)), immediate annuities and life insurance products. FGL markets products through its wholly-owned insurance subsidiaries, Fidelity & Guaranty Life Insurance Company (FGL Insurance) and Fidelity & Guaranty Life Insurance Company of New York (FGL NY Insurance), which together are licensed in all fifty states and the District of Columbia.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

(2) Significant Accounting Policies and Practices

Principles of consolidation

The accompanying audited consolidated financial statements include the accounts of HFG and all other entities in which HFG has a controlling financial interest (none of which are variable interest entities). All intercompany accounts and transactions have been eliminated in consolidation.

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HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Due to the inherent uncertainty involved in making estimates, actual results in future periods could differ from those estimates.

The Company s significant estimates which are susceptible to change in the near term relate to (1) recognition of deferred tax assets and related valuation allowances (see Notes 11 and 16), (2) fair value of certain invested assets and derivatives including embedded derivatives (see Notes 3 and 4), (3) other-than-temporary impairments of available-for-sale investments (see Note 3), (4) amortization of intangibles (see discussion of Intangible Assets below and Note 6) and (5) estimates of reserves for loss contingencies, including litigation and regulatory reserves (see Note 12).

Segment Reporting

The Company follows the accounting guidance which establishes standards for reporting information about operating segments in annual financial statements and related disclosures about products and services, geographic areas and major customers. The Company s reportable business segments are organized in a manner that reflects how the Company s management views those business activities.

The Company s primary business is the sale of individual annuities and life insurance products, which constitutes one reportable segment for financial reporting purposes.

Revenue Recognition

Insurance premiums

The Company s insurance premiums for traditional life insurance products are recognized as revenue when due from the contractholder. The Company s traditional life insurance products include those products with fixed and guaranteed premiums and benefits and consist primarily of term life insurance and certain annuities with life contingencies.

Premium collections for fixed index 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 realized gains (losses) on investments.

Net investment income

Dividends and interest income, recorded in Net investment income, are recognized when earned. Amortization of premiums and accretion of discounts on investments in fixed maturity securities are reflected in Net investment income over the contractual terms of the investments in a manner that produces a constant effective yield.

For mortgage-backed securities, included in the fixed maturity available-for-sale securities portfolios, the Company recognizes income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from originally anticipated prepayments, the effective yield is recalculated prospectively to reflect actual payments to date plus anticipated future payments. Any adjustments resulting from changes in effective yield are reflected in Net investment income.

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HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net investment losses

Net investment losses include realized gains and losses from the sale of investments, write-downs for other-than-temporary impairments of available-for-sale investments, and gains and losses on derivative investments. Realized gains and losses on the sale of investments are determined using the specific identification method.

Product fees

Product fee revenue from universal life insurance (UL) products and deferred annuities is comprised of policy and contract fees charged for the cost of insurance, policy administration and is assessed on a monthly basis and recognized as revenue when assessed and earned. Product fee revenue also includes surrender charges which are recognized and collected when the policy is surrendered.

Cash and cash equivalents

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

Investments

Investment securities

The Company s investments in debt and equity securities have been designated as available-for-sale and are carried at fair value with unrealized gains and losses included in Accumulated other comprehensive income (loss) (AOCI), net of associated intangible shadow adjustments (discussed in Note 6) and deferred income taxes.

Available-for-sale Securities Evaluation for Recovery of Amortized Cost

The Company regularly reviews available-for-sale securities for declines in fair value that it determines to be other-than-temporary. For an equity security, if the Company does not have the ability and intent to hold the security for a sufficient period of time to allow for a recovery in value, it concludes that an other-than-temporary impairment has occurred and the cost of the equity security is written down to the current fair value, with a corresponding charge to investment losses on the Company s Consolidated Statement of Operations. When assessing it s ability and intent to hold an equity security to recovery, the Company considers, among other things, the severity and duration of the decline in fair value of the equity security as well as the cause of the decline, a fundamental analysis of the liquidity, business prospects and the overall financial condition of the issuer.

For its fixed maturity AFS securities, the Company generally considers the following in determining whether its unrealized losses are other-than-temporarily impaired:

The estimated range and period until recovery;

Current delinquencies and nonperforming assets of underlying collateral;

Expected future default rates;

Collateral value by vintage, geographic region, industry concentration or property type;

Subordination levels or other credit enhancements as of the balance sheet date as compared to origination; and

Contractual and regulatory cash obligations.

The Company recognizes other-than-temporary impairments on debt securities in an unrealized loss position when one of the following circumstances exists:

The Company does not expect full recovery of its amortized cost based on the estimate of cash flows expected to be collected,

HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company intends to sell a security; or

It is more likely than not that the Company will be required to sell a security prior to recovery.

If the Company intends to sell a debt security or it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis and the fair value of the security is below amortized cost, the Company will conclude that an other-than-temporary impairment has occurred and the amortized cost is written down to current fair value, with a corresponding charge to Net investment losses in the accompanying Consolidated Statement of Operations. If the Company does not intend to sell a debt security or it is more likely than not the Company will not be required to sell a debt security before recovery of its amortized cost basis and the present value of the cash flows expected to be collected is less than the amortized cost of the security (referred to as the credit loss), an other-than-temporary impairment has occurred and the amortized cost is written down to the estimated recovery value with a corresponding charge to Net investment losses in the accompanying Consolidated Statement of Operations, as this amount is deemed the credit loss portion of the other-than-temporary impairment. The remainder of the decline to fair value is recorded in AOCI as unrealized other-than-temporary impairment on available-for-sale securities, as this amount is considered a non-credit (i.e., recoverable) impairment.

When assessing the Company s intent to sell a debt security or if it is more likely than not the Company will be required to sell a debt security before recovery of its cost basis, the Company evaluates facts and circumstances such as, but not limited to, decisions to reposition the Company s security portfolio, sale of securities to meet cash flow needs and sales of securities to capitalize on favorable pricing. In order to determine the amount of the credit loss for a security, the Company calculates the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows the Company expects to recover. The discount rate is the effective interest rate implicit in the underlying security. The effective interest rate is the original purchased yield or the yield at the date the debt security was previously impaired.

When evaluating mortgage-backed securities and asset-backed securities, the Company considers a number of pool-specific factors as well as market level factors when determining whether or not the impairment on the security is temporary or other-than-temporary. The most important factor is the performance of the underlying collateral in the security and the trends of that performance. The Company uses this information about the collateral to forecast the timing and rate of mortgage loan defaults, including making projections for loans that are already delinquent and for those loans that are currently performing but may become delinquent in the future. Other factors used in this analysis include type of underlying collateral (e.g., prime, Alternative A-paper (Alt-A), or subprime), geographic distribution of underlying loans and timing of liquidations by state. Once default rates and timing assumptions are determined, the Company then makes assumptions regarding the severity of a default if it were to occur. Factors that impact the severity assumption include expectations for future home price appreciation or depreciation, loan size, first lien versus second lien, existence of loan level private mortgage insurance, type of occupancy and geographic distribution of loans. Once default and severity assumptions are determined for the security in question, cash flows for the underlying collateral are projected including expected defaults and prepayments. These cash flows on the collateral are then translated to cash flows on the Company s tranche based on the cash flow waterfall of the entire capital security structure. If this analysis indicates the entire principal on a particular security will not be returned, the security is reviewed for an other-than-temporary impairment by comparing the present value of expected cash flows to amortized cost. To the extent that the security has already been impaired or was purchased at a discount, such that the amortized cost of the security is less than or equal to the present value of cash flows expected to be collected, no impairment is

required. The Company also considers the ability of monoline insurers to meet their contractual guarantees on wrapped mortgage-backed securities. Otherwise, if the amortized cost of the security is greater than the present value of the cash flows expected to be collected, then an impairment is recognized.

The Company includes on the face of the Consolidated Statement of Operations the total other-than-temporary impairment recognized in net investment gains (losses), with an offset for the amount of non-credit impairments recognized in AOCI. The Company discloses the amount of other-than-temporary impairments recognized in AOCI and other disclosures related to other-than-temporary impairments in Notes 3 and 9.

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HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Derivative Financial Instruments

The Company hedges certain portions of its exposure to product related equity market risk by entering into derivative transactions. All of such derivative instruments are recognized as either assets or liabilities in the accompanying Consolidated Balance Sheet at fair value. The change in fair value is recognized within Net investment losses in the accompanying Consolidated Statement of Operations.

The Company purchases and issues financial instruments and products that may contain embedded derivative instruments. If it is determined that the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract for measurement purposes. The embedded derivative is carried at fair value with changes in fair value reported in the accompanying Consolidated Statement of Operations.

Intangible Assets

The Company s intangible assets include value of business acquired (VOBA) and deferred acquisition costs (DAC).

VOBA represents the estimated fair value of the right to receive future net cash flows from in-force contracts in a life insurance company acquisition at the acquisition date. DAC represents costs that are related directly to new or renewal insurance contracts, which may be deferred to the extent recoverable. These costs include incremental direct costs of contract acquisition, primarily commissions, as well as certain costs related directly to underwriting, policy issuance and processing. Up front bonus credits to policyholder account values, which are considered to be deferred sales inducements (DSI), are accounted for similarly to DAC.

The methodology for determining the amortization of VOBA and DAC varies by product type. For all insurance contracts, amortization is based on assumptions consistent with those used in the development of the underlying contract adjusted for emerging experience and expected trends. US GAAP requires that assumptions for these types of products not be modified unless recoverability testing deems them to be inadequate. VOBA and DAC amortization are reported within Amortization of intangibles in the accompanying Consolidated Statement of Operations.

VOBA and DAC for UL and investment-type products are generally amortized over the lives of the policies in relation to the incidence of estimated gross profits (EGPs) from investment income, surrender charges and other product fees, policy benefits, maintenance expenses, mortality net of reinsurance ceded and expense margins, and actual realized gains (losses) on investments.

Changes in assumptions can have a significant impact on VOBA and DAC balances and amortization rates. Due to the relative size and sensitivity to minor changes in underlying assumptions of VOBA and DAC balances, the Company performs quarterly and annual analyses of VOBA and DAC for the annuity and life businesses, respectively. The VOBA and DAC balances are also periodically evaluated for recoverability to ensure that the unamortized portion does not exceed the expected recoverable amounts. At each evaluation date, actual historical gross profits are reflected, and estimated future gross profits and related assumptions are evaluated for continued reasonableness. Any adjustment in estimated future gross profits requires that the amortization rate be revised (unlocking) retroactively to the date of the policy or contract issuance. The cumulative unlocking adjustment is recognized as a component of current period amortization. In general, sustained increases in investment, mortality, and expense margins, and thus

estimated future profits, lower the rate of amortization. However, sustained decreases in investment, mortality, and expense margins, and thus estimated future gross profits, increase the rate of amortization.

The carrying amounts of VOBA and DAC are adjusted for the effects of realized and unrealized gains and losses on debt securities classified as available-for-sale and certain derivatives and embedded derivatives. Amortization expense of VOBA and DAC reflects an assumption for an expected level of credit-related investment losses. When actual credit-related investment losses are realized, the Company performs a retrospective unlocking of VOBA and

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HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DAC amortization as actual margins vary from expected margins. This unlocking is reflected in the accompanying Consolidated Statement of Operations.

For annuity, UL, and investment-type products, the VOBA and DAC assets are adjusted for the impact of unrealized gains (losses) on investments as if these gains (losses) had been realized, with corresponding credits or charges included in accumulated other comprehensive income.

Reinsurance

The Company s insurance subsidiaries enter into reinsurance agreements with other companies in the normal course of business. The assets, liabilities, premiums and benefits of certain reinsurance contracts are presented on a net basis in the accompanying Consolidated Balance Sheet and Consolidated Statement of Operations, respectively, when there is a right of offset explicit in the reinsurance agreements. All other reinsurance agreements are reported on a gross basis in the Company s Consolidated Balance Sheet as an asset for amounts recoverable from reinsurers or as a component of other liabilities for amounts, such as premiums, owed to the reinsurers, with the exception of amounts for which the right of offset also exists. Premiums, benefits and DAC are reported net of insurance ceded.

Income taxes

HFG and certain of its non-life insurance subsidiaries are included in the consolidated U.S. Federal income tax return of HGI. HFG s life insurance subsidiaries file a consolidated life insurance income tax return. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has the ability and intent to recover in a tax-free manner assets (or liabilities) with book/tax basis differences for which no deferred taxes have been provided, in accordance with ASC Topic 740, Income Taxes. Accordingly, the Company did not provide deferred income taxes on the bargain purchase gain of $151,077 on the FGL acquisition.

The Company applies the accounting guidance for uncertain tax positions which prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. The guidance also provides information on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Accrued interest expense and penalties related to uncertain tax positions are recorded in Income tax expense (benefit) on the Company s Consolidated Statement of Operations. The Company had no unrecognized tax benefits related to uncertain tax positions as of September 30, 2011.

Contractholder funds and future policy benefits

The liabilities for contractholder funds and future policy benefits for investment contracts and UL insurance policies consist of contract account balances that accrue to the benefit of the contractholders, excluding surrender charges.

Investment contracts include FIAs, deferred annuities and immediate annuities without life contingencies. The liabilities for future insurance contract benefits and claim reserves for traditional life policies and for pay-out annuity policies are computed using assumptions for investment yields, mortality and withdrawals based principally on generally accepted actuarial methods and assumptions at the time of contract issue. Assumptions for contracts in-force as of the FGL Acquisition Date were updated as of that date.

Liabilities for the secondary guarantees on UL-type products are calculated by multiplying the benefit ratio by the cumulative assessments recorded from contract inception through the balance sheet date less the cumulative

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

secondary guarantee benefit payments plus interest. If experience or assumption changes result in a new benefit ratio, the reserves are adjusted to reflect the changes in a manner similar to the unlocking of VOBA and DAC. The accounting for secondary guarantee benefits impacts, and is impacted by, EGPs used to calculate amortization of VOBA and DAC.

FIA contracts are equal to the total of the policyholder account values before surrender charges, and additional reserves established on certain features offered that link interest credited to an equity index. These features create an embedded derivative that is not clearly and closely related to the host insurance contract. The embedded derivative is carried at fair value with changes in fair value reported in the accompanying Consolidated Statement of Operations.

Federal Home Loan Bank of Atlanta Agreements

Contractholder funds include funds related to funding agreements that have been issued to the Federal Home Loan Bank of Atlanta (FHLB) as a funding medium for single premium funding agreements issued by the Company to the FHLB.

Funding agreements were issued to the FHLB in 2003, 2004 and 2005. The funding agreements (i.e., immediate annuity contracts without life contingencies) provide a guaranteed stream of payments. Single premiums were received at the initiation of the funding agreements and were in the form of advances from the FHLB. Payments under the funding agreements extend through 2022. The reserves for the funding agreement totaled $169,580 at September 30, 2011 and are included in Contractholder funds; in the accompanying Consolidated Balance Sheet.

In accordance with the agreements, the investments supporting the funding agreement liabilities are pledged as collateral to secure the FHLB funding agreement liabilities. The collateral investments had a fair value of $191,331 at September 30, 2011.

Benefits and Other Changes in Policy Reserves

Benefit expenses for deferred annuity, FIA, and UL policies include benefit claims incurred during the period in excess of contract account balances. Other changes in policy reserves also include the change in reserves for life insurance products with secondary guarantee benefits. For traditional life, policy benefit claims are charged to expense in the period that the claims are incurred.

Recent Accounting Pronouncements Not Yet Adopted

Fair Value Measurement

In May 2011, the Financial Accounting Standards Board (FASB) issued amended accounting guidance to achieve a consistent definition of and common requirements for measurement of and disclosure concerning fair value between US GAAP and International Financial Reporting Standards. This amended guidance is effective for the Company beginning in the second quarter of its fiscal year ending September 30, 2012. The Company is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

Presentation of Comprehensive Income

In June 2011, the FASB issued Accounting Standards Update 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income,* which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders /member s equity. Instead, comprehensive income must be reported in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This guidance will be effective for the Company beginning in fiscal year

HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2013. The Company does not expect the guidance to impact its consolidated financial statements, as it only requires a change in the format of presentation.

(3) Investments

The Company s investments are summarized as follows:

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities:				
Asset-back securities	$ 501,469	$ 1,785	$ (2,770)	$ 500,484
Commercial mortgage-backed securities	580,313	3,427	(18,163)	565,577
Corporates	11,479,862	506,264	(130,352)	11,855,774
Equities	292,112	3,964	(9,033)	287,043
Hybrids	699,915	10,429	(51,055)	659,289
Municipals	824,562	111,929	(7)	936,484
Agency residential mortgage-backed securities	217,354	4,966	(295)	222,025
Non-agency residential mortgage-backed securities	465,666	1,971	(23,120)	444,517
U.S. Government	175,054	8,270		183,324
Total available-for-sale securities	15,236,307	653,005	(234,795)	15,654,517
Derivative investments	171,612	405	(119,682)	52,335
Other invested assets	44,279			44,279
Total investments	$ 15,452,198	$ 653,410	$ (354,477)	$ 15,751,131

Included in other comprehensive income were unrealized gains of $524 and unrealized losses of $24 related to the non-credit portion of other-than-temporary impairments on non-agency residential mortgage-backed securities (RMBS) at September 30, 2011.

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HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The amortized cost and fair value of fixed maturity available-for-sale securities by contractual maturities, as applicable, were as follows:

	September 30, 2011	
	Amortized Cost	Fair Value
Corporate, Municipal and U.S. Government securities:		
Due in one year or less	$ 399,362	$ 398,594
Due after one year through five years	2,646,037	2,653,699
Due after five years through ten years	4,481,497	4,593,136
Due after ten years	4,952,582	5,330,153
Subtotal	12,479,478	12,975,582
Other securities which provide for periodic payments:		
Asset-backed securities	501,469	500,484
Commercial mortgage-backed securities	580,313	565,577
Hybrids	699,915	659,289
Agency residential mortgage-backed securities	217,354	222,025
Non-agency residential mortgage-backed securities	465,666	444,517
Total fixed maturity available-for-sale securities	$ 14,944,195	$ 15,367,474

Actual maturities may differ from contractual maturities because issuers may have the right to call or pre-pay obligations.

As part of its ongoing securities monitoring process, the Company evaluates whether securities in an unrealized loss position could potentially be other-than-temporarily impaired. The Company has concluded that the fair values of the securities presented in the table below were not other-than-temporarily impaired as of September 30, 2011. This conclusion is derived from the issuers continued satisfaction of the securities obligations in accordance with their contractual terms along with the expectation that they will continue to do so. Also contributing to this conclusion is its determination that it is more likely than not that the Company will not be required to sell these securities prior to recovery, an assessment of the issuers financial condition, and other objective evidence. As it specifically relates to asset-backed securities and commercial mortgage-backed securities, the present value of cash flows expected to be collected is at least the amount of the amortized cost basis of the security and the Company s management has the intent to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value.

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HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As the amortized cost of all investments was adjusted to fair value as of the FGL Acquisition Date, no individual securities have been in a continuous unrealized loss position greater than twelve months. The fair value and gross unrealized losses of available-for-sale securities, aggregated by investment category, were as follows.

	As of September 30, 2011	
	Fair Value	**Gross Unrealized Losses**
Available-for-sale securities:		
Asset-backed securities	$ 275,135	$ (2,770)
Commercial mortgage-backed securities	338,865	(18,163)
Corporates	3,081,556	(130,352)
Equities	99,772	(9,033)
Hybrids	450,376	(51,055)
Municipals	1,137	(7)
Agency residential mortgage-backed securities	25,820	(295)
Non-agency residential mortgage-backed securities	375,349	(23,120)
Total available-for-sale securities	$ 4,648,010	$ (234,795)
Total number of available-for-sale securities in an unrealized loss position		505

At September 30, 2011, securities in an unrealized loss position were primarily concentrated in investment grade corporate debt instruments, residential mortgage-backed securities, commercial mortgage-backed securities and hybrids. Total unrealized losses were $234,795 at September 30, 2011. Finance-related exposure represents the largest component of the unrealized loss position in the portfolio at September 30, 2011. The increase in risk aversion in capital markets during the most recent period has also affected prices of commercial mortgage-backed securities and non-agency residential mortgage-backed securities, including the earlier vintage and higher quality securities currently owned. The Company has not added to any exposure in these sectors and will continue to monitor existing positions carefully.

At September 30, 2011, securities with a fair value of $31,320 were depressed greater than 20% of amortized cost, which represented less than 1% of the carrying values of all investments. Based upon the Company s current evaluation of these securities in accordance with its impairment policy and its intent to retain these investments for a period of time sufficient to allow for recovery in value, the Company has determined that these securities are not other-than-temporarily impaired.

The following table provides a reconciliation of the beginning and ending balances of the credit loss portion of other-than-temporary impairments on fixed maturity securities held by the Company as of September 30, 2011, for which a portion of the other-than-temporary impairment was recognized in accumulated other comprehensive income:

Balance at April 6, 2011	$	
Increases attributable to credit losses on securities:		
Other-than-temporary impairment was previously recognized		
Other-than-temporary impairment was not previously recognized		667
Balance at September 30, 2011	$	667

For the period from April 6, 2011 to September 30, 2011, the Company recognized credit losses in operations totaling $17,966, which experienced other-than-temporary impairments and had an amortized cost of $103,312 and

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

a fair value of $85,846 at the time of impairment. Details underlying write-downs taken as a result of other-than-temporary impairments that were recognized in net income and included in realized loss on investments were as follows:

	For the Period April 6, 2011 to September 30, 2011
Other-than-temporary impairments recognized in net income:	
Commercial mortgage-backed securities	$ 20
Corporates	1,462
Equities	11,007
Non-agency residential mortgage-backed securities	5,059
Other invested assets	418
Total credit impairments	$ 17,966

Net Investment Income

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

	For the Period April 6, 2011 to September 30, 2011
Fixed maturity available-for-sale securities	$ 364,771
Equity available-for-sale securities	10,190
Policy loans	1,511
Invested cash and short-term investments	129
Other investments	326
Gross investment income	376,927
Investment expense	(7,087)
Net investment income	$ 369,840

Net Investment Losses

Details underlying Net investment losses reported on the accompanying Consolidated Statement of Operations were as follows:

	For the Period April 6, 2011 to September 30, 2011
Net realized gain on fixed maturity available-for-sales securities	$ 16,912
Realized loss on equity securities	(10,977)
Realized loss on certain derivative instruments	(44,776)
Unrealized loss on certain derivative instruments	(125,976)
Realized loss on other invested assets	(2,074)
Net investment losses	$ (166,891)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the period from April 6, 2011 to September 30, 2011, principal repayments, calls, tenders, and proceeds from the sale of fixed maturity available-for-sale securities, including assets transferred to Wilton as discussed in Note 13, totaled $2,104,272, gross gains on such sales totaled $43,902 and gross losses totaled $20,031.

Underlying write-downs taken to fixed maturity available-for-sale securities as a result of other-than-temporary impairments that was recognized in net income and included in net realized gain on available-for-sale securities above were $17,966 for the period from April 6, 2011 to September 30, 2011. The portion of other-than-temporary impairments recognized in AOCI is disclosed in Note 9, Member s equity.

Concentrations of Financial Instruments

As of September 30, 2011, the Company s most significant investment in one industry was its investment securities in the banking industry with a fair value of $1,987,993, or 12.6% of the invested assets portfolio. As of September 30, 2011, the Company s exposure to sub-prime and Alt-A residential mortgage-backed securities was $264,575 and $34,112 or 1.7% and 0.2% of the Company s invested assets, respectively.

(4) Derivative Financial Instruments

	September 30, 2011
Assets:	
Derivative investments:	
Call options	$ 52,335
Liabilities:	
Contractholder funds:	
FIA embedded derivative	$ 1,396,340
Other liabilities:	
Futures contract	3,828
Available-for-sale embedded derivative	400
	$ 1,400,568

The change in fair value of derivative instruments included in the accompanying Consolidated Statement of Operations is as follows:

	For the Period April 6, 2011 to September 30, 2011

Revenues:		
Net investment gains (losses):		
Call options	$	(142,665)
Futures contracts		(28,087)
		(170,752)
Net investment income:		
Available-for-sale embedded derivatives		19
	$	(170,733)
Benefits and other changes in policy reserves:		
FIA embedded derivatives	$	(69,968)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FIA Contracts

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

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

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

Credit Risk

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

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

		September 30, 2011	
Counterparty	**Credit Rating (Moody s/S&P)**	**Notional Amount**	**Fair Value**

Barclay s Bank	Aa3/A+	$ 385,189	$ 4,105
Credit Suisse	Aa2/A	327,095	2,785
Bank of America	Baa1/A	1,692,142	14,637
Deutsche Bank	Aa3/A+	1,463,596	11,402
Morgan Stanley	A2/A	1,629,247	15,373
Nomura	Baa2/BBB+	107,000	4,033
		$ 5,604,269	$ 52,335

HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Collateral Agreements

The Company is required to maintain minimum ratings as a matter of routine practice in its ISDA agreements. Under some ISDA agreements, the Company has agreed to maintain certain financial strength ratings. A downgrade below these levels could result in termination of the open derivative contracts between the parties, at which time any amounts payable by the Company or the counterparty would be dependent on the market value of the underlying derivative contracts. The Company s current rating allows multiple counterparties the right to terminate ISDA agreements. No ISDA agreements have been terminated, although the counterparties have reserved the right to terminate the ISDA agreements at any time. In certain transactions, the Company and the counterparty have entered into a collateral support agreement requiring either party to post collateral when the net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. As of September 30, 2011, no collateral was posted by the Company s counterparties as they did not meet the net exposure thresholds. Accordingly, the maximum amount of loss due to credit risk that the Company would incur if parties to the call options failed completely to perform according to the terms of the contracts was $52,335 at September 30, 2011.

The Company held 2,458 futures contracts at September 30, 2011. The fair value of futures contracts represents the cumulative unsettled variation margin (open trade equity net of cash settlements). The Company provides cash collateral to the counterparties for the initial and variation margin on the futures contracts which is included in Cash and cash equivalents in the accompanying Consolidated Balance Sheet. The amount of collateral held by the counterparties for such contracts at September 30, 2011 was $9,820.

(5) Fair Value of Financial Instruments

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

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

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

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

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

When a determination is made to classify an asset or liability within Level 3 of the fair value hierarchy, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement.

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HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The carrying amounts and estimated fair values of the Company s consolidated financial instruments for which the disclosure of fair values is required were as follows (asset/(liability)):

	September 30, 2011	
	Carrying Amount	Fair Value
Cash and cash equivalents	$ 820,903	$ 820,903
Investments:		
Fixed maturities, available-for-sale	15,367,474	15,367,474
Equity securities, available-for-sale	287,043	287,043
Other invested assets	44,279	44,279
Derivatives:		
Call options	52,335	52,335
Future contracts	(3,828)	(3,828)
Available-for-sale embedded derivatives	(400)	(400)
Investment contracts, included in contractholder funds	(14,549,970)	(13,388,353)
Note payable	(95,000)	(95,000)

The carrying amounts of accrued investment income and portions of other liabilities approximate fair value due to their short duration and, accordingly, they are not presented in the table above.

Investment contracts include deferred annuities, FIAs, UL, and immediate annuities. The fair values of deferred annuities, FIAs, and UL contracts are based on their cash surrender value (i.e. the cost the Company would incur to extinguish the liability) as these contracts are generally issued without an annuitization date. The fair value of immediate annuities contracts is derived by calculating a new fair value interest rate using the updated yield curve and treasury spreads as of September 30, 2011 which resulted in lower fair value reserves relative to the carrying value. The Company is not required to and has not estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the definition of insurance contracts that are exceptions from financial instruments that require disclosures of fair value. The fair value of the Company s note payable approximates its carrying value as it was recently settled at such carrying value.

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HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial assets and liabilities measured and carried at fair value on a recurring basis are summarized, according to the hierarchy previously described, as follows:

	September 30, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Fixed maturity securities, available-for-sale:				
Asset-backed securities	$	$ 125,966	$ 374,518	$ 500,484
Commercial mortgage-backed securities		565,577		565,577
Corporates		11,696,090	159,684	11,855,774
Hybrids		654,084	5,205	659,289
Municipals		936,484		936,484
Agency residential mortgage-backed securities		218,713	3,312	222,025
Non-agency residential mortgage-backed securities		440,758	3,759	444,517
U.S. Government	183,324			183,324
Equity securities, available-for-sale		287,043		287,043
Derivative instruments call options		52,335		52,335
Total assets carried at fair value	$ 183,324	$ 14,977,050	$ 546,478	$ 15,706,852
Liabilities				
Derivative instruments futures contracts	$	$ (3,828)	$	$ (3,828)
FIA embedded derivatives, included in contractholder funds			(1,396,340)	(1,396,340)
Available-for-sale embedded derivatives			(400)	(400)
Total liabilities carried at fair value	$	$ (3,828)	$ (1,396,740)	$ (1,400,568)

The Company measures the fair value of its securities based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the fixed maturity or equity security, and the Company consistently applies the valuation methodology to measure the security s fair value. The Company s fair value measurement is based on a market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the market approach include a third-party pricing service, independent broker quotations or pricing matrices. The Company uses observable and unobservable inputs in its valuation methodologies. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators, industry and economic events are monitored and further market data is acquired if certain triggers are met. For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. For those securities trading in less liquid or illiquid markets with limited or no pricing information, the Company uses unobservable inputs in order to

measure the fair value of these securities. This valuation relies on management s judgment concerning the discount rate used in calculating expected future cash flows, credit quality, industry sector performance and expected maturity.

The Company did not adjust prices received from third parties as of September 30, 2011. The Company does analyze the third-party pricing service s valuation methodologies and related inputs and performs additional evaluations to determine the appropriate level within the fair value hierarchy.

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HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The fair values of the embedded derivatives in the Company s FIA products are derived using market indices, pricing assumptions and historical data.

The following tables summarize changes to the Company s financial instruments carried at fair value and classified within Level 3 of the fair value hierarchy for the period from April 6, 2011 to September 30, 2011. The gains and losses below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

	Balance at Beginning of Period	Total Gains (Losses) Included in Earnings	Total Gains (Losses) Included in AOCI	Net Purchases, Sales & Settlements	Net Transfer in (Out) of Level 3	Balance at End of Period
Assets						
Fixed maturity securities, available-for-sale:						
Asset-backed securities	$ 399,967	$	$ 863	$ (11,709)	$ (14,603)	$ 374,518
Corporates	197,573	1,993	5,408	(45,229)	(61)	159,684
Hybrids	8,305		(61)		(3,039)	5,205
Agency residential mortgage-backed securities	3,271		41			3,312
Non-agency residential mortgage-backed securities	18,519	2,364	379	(17,503)		3,759
Total assets at fair value	$ 627,635	$ 4,357	$ 6,630	$ (74,441)	$ (17,703)	$ 546,478
Liabilities						
FIA embedded derivatives, included in contractholder funds	$ (1,466,308)	$ 69,968	$	$	$	$ (1,396,340)
Available-for-sale embedded	(419)	19				(400)
Total liabilities at fair value	$ (1,466,727)	$ 69,987	$	$	$	$ (1,396,740)

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the beginning fair value for the reporting period in which the changes occur. There were no transfers between Level 1 and Level 2 for the period ended September 30, 2011.

During the period ended September 30, 2011, primary market issuance and secondary market activity for hybrids and asset-backed securities increased the market observable inputs used to establish fair values for similar securities. These factors, along with more consistent pricing from third-party sources, resulted in the Company s conclusion that there is sufficient trading activity in similar instruments to support classifying certain hybrids and asset-backed securities as Level 2 as of September 30, 2011. Accordingly, the Company s assessment resulted in a transfer out of Level 3 of $3,039, $61 and $14,603, respectively, during the period ended September 30, 2011 related to hybrids, corporates and asset-backed securities.

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HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in unrealized losses (gains), net in the Company s embedded derivatives are included in Benefits and other changes in policy reserves in the Consolidated Statement of Operations.

The following table presents the gross components of purchases, sales, and settlements, net, of Level 3 financial instruments from April 6, 2011 to September 30, 2011. There were no issuances during this period.

	For the Period April 6, 2011 to September 30, 2011			
	Purchases	**Sales**	**Settlements**	**Net purchases, Sales and Settlements**
Assets				
Fixed maturity securities, available-for-sale:				
Asset-backed securities	$ 2,007	$	$ (13,716)	$ (11,709)
Corporates	10,365	(48,898)	(6,696)	(45,229)
Non-agency residential mortgage-backed securities		(15,729)	(1,774)	(17,503)
Total assets	$ 12,372	$ (64,627)	$ (22,186)	$ (74,441)

(6) Intangible Assets

Information regarding VOBA and DAC (including DSI) is as follows:

	VOBA	**DAC**	**Total**
Balance at September 30, 2010	$	$	$
Acquisition of FGL on April 6, 2011	577,163		577,163
Deferrals		41,152	41,152
Less: Amortization related to:			
Unlocking	(2,320)	97	(2,223)
Interest	14,040		14,040
Other amortization	294	(996)	(702)
Add: Adjustment for unrealized investment (gains), net	(170,117)	(2,146)	(172,263)
Balance at September 30, 2011	$ 419,060	$ 38,107	$ 457,167

Amortization of VOBA and DAC is based on the amount of gross margins or profits recognized, including investment gains and losses. The adjustment for unrealized net investment gains represents the amount of VOBA and DAC that would have been amortized if such unrealized gains and losses had been recognized. This is referred to as the shadow adjustments as the additional amortization is reflected in AOCI rather than the Statement of Operations.

The above DAC balances include $5,048 of DSI, net of shadow adjustments as of September 30, 2011.

HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The weighted-average amortization period for VOBA and DAC are approximately 5 and 5.5 years, respectively. The estimated future amortization expense for VOBA and DAC in future fiscal years is as follows:

	Estimated Amortization Expense	
For the Year Ending September 30,	**VOBA**	**DAC**
2012	$ 74,752	$ 3,713
2013	83,115	4,590
2014	76,070	5,084
2015	65,544	4,780
2016	57,646	4,442
Thereafter	232,050	17,644

(7) Other Liabilities

Other liabilities consist of the following:

	As of September 30, 2011
Retained asset account	$ 191,452
Funds withheld from reinsurers	52,953
Amounts due to HGI (Note 14)	49,339
Remittances and items not allocated	34,646
Accrued expenses	21,952
Amounts payable for investment purchases	13,353
Amounts payable to reinsurers	13,884
Derivatives futures contracts	3,828
Other	47,430
Total other liabilities	$ 428,837

(8) Note Payable

On April 7, 2011, Raven Reinsurance Company (Raven Re), a newly-formed wholly-owned subsidiary of FGL, issued a $95,000 surplus note to OMGUK. The surplus note was issued at par and carried a 6% fixed interest rate, as discussed further in Note 13, Reinsurance . The note had a maturity date which was the later of (i) December 31, 2012 or (ii) the date on which all amounts due and payable to the lender have been paid in full. The note was retired on October 17, 2011 in connection with the closing of the Raven Springing amendment and the replacement of the Reserve Facility. See Note 17, Subsequent Events for additional details.

(9) Member s Equity

Accumulated Other Comprehensive Income

Net unrealized gains and losses on investment securities classified as available-for-sale are reduced by deferred income taxes and adjustments to VOBA and DAC that would have resulted had such gains and losses been realized.

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HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in net unrealized gains and losses on investment securities classified as available-for-sale recognized in AOCI for the period from April 6, 2011 to September 30, 2011, were as follows:

Changes in unrealized investment gains:	
Changes in unrealized investment gains before reclassification adjustment	$ 420,929
Net reclassification adjustment for gains included in net income	(3,861)
Changes in unrealized investment gains after reclassification adjustment	417,068
Adjustments to intangible assets	(172,057)
Changes in deferred income tax asset/liability	(85,709)
Changes in net unrealized investment gains, net of tax	159,302
Changes in non-credit related other-than-temporary impairment recognized in AOCI:	
Changes in non-credit related other-than-temporary impairment	500
Adjustments to intangible assets	(206)
Changes in deferred income tax asset/liability	(103)
Changes in non-credit related other-than-temporary impairment, net of tax	191
Other comprehensive income, net of tax	$ 159,493

Restricted Net Assets of Subsidiaries

HFG s equity in restricted net assets of consolidated subsidiaries was approximately $648,000 as of September 30, 2011, representing 97% of HFG s consolidated member s equity as of September 30, 2011 and consisted of net assets of FGL which were restricted as to transfer to HFG in the form of cash dividends, loans or advances under regulatory restrictions.

(10) Employee Benefit Plans

FGL sponsors a defined contribution plan in which eligible participants may defer a fixed amount or a percentage of their eligible compensation, subject to limitations, and FGL makes a discretionary matching contribution of up to 5% of eligible compensation. FGL has also established a nonqualified defined contribution plan for independent agents. FGL makes contributions to the plan based on both FGL s and the agent s performance. Contributions are discretionary and evaluated annually. Aggregate contributions charged to operations for the defined contribution plans, including discretionary amounts, were $319 for the period April 6, 2011 to September 30, 2011.

(11) Income Taxes

HFG is a limited liability company wholly owned by HGI. For income tax purposes, HFG and its non-life insurance subsidiaries (collectively HFGNL) are disregarded entities and taxed as if they were part of HGI. As a result, income tax expense (benefit) resulting from their operations is not recorded in the Company s financial statements. If HFGNL

were a separate taxable entity, its income tax expense would be computed on a standalone basis in accordance with ASC Topic 740 and, on a pro forma basis, would have been $441, consisting of a $1,961 current tax expense partially offset by a $1,520 deferred tax benefit.

The financial statement income tax accounts reflect income tax expense (benefit) solely for FGL, as follows.

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HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income tax benefit was calculated based upon the following components of income before income taxes:

	Year Ended September 30, 2011
Pretax income (loss):	
United States	$ 112,112
Outside the United States	(4,359)
Total pretax income	$ 107,753

The components of income tax benefit were as follows:

	Year Ended September 30, 2011
Current:	
Federal	$ (875)
State	
Total current	(875)
Deferred:	
Federal	(40,869)
State	
Total deferred	(40,869)
Income tax benefit	$ (41,744)

The difference between income taxes expected at the U.S. Federal statutory income tax rate of 35% and reported income tax expense is summarized as follows:

	Year Ended September 30, 2011
Expected income tax expense at Federal statutory rate	$ 37,714
Income of HFGNL at Federal statutory rate	(49,423)
Valuation allowance for deferred tax assets	(30,064)
Other	29

Reported income tax benefit	$	(41,744)
Effective tax rate		(38.7)%

For the year ended September 30, 2011, the Company s effective tax rate of (38.7)% was positively impacted by the release of valuation allowance attributed to the the Company s determination that certain of its deferred tax assets are more likely than not realizable, and the bargain purchase gain incurred by HFGNL, which is reflected in the effect of its income excluded in the above table.

HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table is a summary of the components of deferred income tax assets and liabilities:

		Year Ended September 30, 2011
Noncurrent deferred tax assets:		
Net operating loss, credit and capital loss carryforwards	$	475,248
Deferred acquisition costs		74,175
Insurance reserves and claim related adjustments		408,214
Other		26,125
Valuation allowance		(375,306)
Total noncurrent deferred tax assets		608,456
Noncurrent deferred tax liabilities:		
Value of business acquired	$	(148,876)
Investments		(246,632)
Other		(1,307)
Total noncurrent deferred tax liabilities		(396,815)
Net current and noncurrent deferred tax assets	$	211,641

In accordance with ASC Topic 740, the Company establishes valuation allowances for deferred tax assets that, in its judgment, are not more-likely-than-not realizable. These judgments are based on projections of future income, including tax-planning strategies, by individual tax jurisdiction. Changes in industry and economic conditions and the competitive environment may impact the accuracy of our projections. In accordance with ASC Topic 740, during each reporting period, the Company assesses the likelihood that its deferred tax assets will be realized and determines if adjustments to its valuation allowances are appropriate. As a result of this assessment, for the year ended September 30, 2011, the Company had a net release of valuation allowance to earnings totaling $30,064.

At September 30, 2011, the Company s deferred tax assets resulted principally from U.S. Federal net operating loss (NOL), capital loss and tax credit carryforwards and insurance reserves. Its net deferred tax asset position at September 30, 2011, before consideration of its recorded valuation allowance, was $586,947. A valuation allowance of $375,306 was recorded against its deferred tax asset balance at September 30, 2011. The Company s net deferred tax asset position at September 30, 2011, after taking into account the valuation allowance, is $211,641. For the year ended September 30, 2011, $85,709 of deferred tax liabilities were established and recorded through AOCI as a result of unrealized gains on securities that were marked to market. For the year ended September 30, 2011, the Company reversed $30,064 of valuation allowance to earnings based on management s reassessment of the amount of its deferred tax assets that are more-likely-than-not realizable.

At September 30, 2011, FGL has NOL carryforwards of $428,005 which, if unused, will expire in years 2023 through 2031. FGL has a capital loss carryforwards totaling $717,267 at September 30, 2011, which if unused, will expire in

years 2012 through 2016. In addition, FGL has low income housing tax credit carryforwards totaling $68,099, which if unused, will expire in years 2017 through 2031. Alternative minimum tax credits of $6,304 may be carried forward indefinitely. Certain tax attributes are subject to an annual limitation as a consequence of the acquisition of FGL by the Company, which resulted in a change of ownership as defined under Internal Revenue Code Section 382.

U.S. Federal income tax returns of FGL for years prior to 2007 are no longer subject to examination by the taxing authorities. FGL is no longer subject to state and local income tax audits for years prior to 2007. However, Federal NOL carryforwards from tax years ended June 30, 2006 and December 31, 2006, respectively, continue to be subject to Internal Revenue Service examination until the Statute of Limitations expires for the years in which these NOL carryforwards are ultimately utilized.

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HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Commitments and Contingencies

Lease Commitments

The Company leases office space under non-cancelable operating leases that expire in May 2021. The Company also leases office furniture and office equipment under non-cancelable operating leases that expire in 2012. For the period April 6, 2011 to September 30, 2011, the Company s total rent expense was $1,346. As of September 30, 2011, the minimum rental commitments under the non-cancelable leases are as follows:

	Amount
Twelve months ending September 30:	
2012	$ 1,658
2013	1,069
2014	1,101
2015	1,134
2016	1,168
Thereafter	6,387
Total	$ 12,517

Contingencies

Business Concentration, Significant Risks and Uncertainties

Financial markets in the United States and elsewhere have experienced extreme volatility and disruption for more than two years, due largely to the stresses affecting the global banking system. Like other life insurers, FGL has been adversely affected by these conditions. FGL is exposed to financial and capital markets risk, including changes in interest rates and credit spreads which have had an adverse effect on FGL s results of operations, financial condition and liquidity prior to the FGL Acquisition. As discussed further in the following paragraph regarding risk factors, the Company expects to continue to face challenges and uncertainties that could adversely affect its results of operations and financial condition.

The Company s exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. A rise in interest rates, in the absence of other countervailing changes, will decrease the net unrealized gain position of the Company s investment portfolio and, if long-term interest rates rise dramatically within a six to twelve month time period, certain of the Company 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 the Company 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 the Company s products.

Regulatory and Litigation Matters

FGL Insurance is assessed amounts by the state guaranty funds to cover losses to policyholders of insolvent or rehabilitated insurance companies. Those mandatory assessments may be partially recovered through a reduction in future premium taxes in certain states. At September 30, 2011, FGL Insurance has accrued $6,995 for guaranty fund assessments which is expected to be offset by estimated future premium tax deductions of $4,970.

The Company 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

HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

effect on the Company 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.

Guarantees

The First Amended and Restated Stock Purchase Agreement, dated February 17, 2011 (the F&G Stock Purchase Agreement) between HFG and OMGUK includes a Guarantee and Pledge Agreement which creates certain obligations for FGL as a grantor and also grants a security interest to OMGUK of FGL s equity interest in FGL Insurance in the event that HFG fails to perform in accordance with the terms of the F&G Stock Purchase Agreement. The Company is not aware of any events or transactions that would result in non-compliance with the Guarantee and Pledge Agreement.

(13) Reinsurance

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

The effect of reinsurance on premiums earned and benefits incurred for the period from April 6, 2011 to September 30, 2011 were as follows:

	Net Premiums Earned	Net Benefits Incurred
Direct	$ 157,772	$ 392,073
Assumed	22,858	19,571
Ceded	(141,628)	(164,012)
Net	$ 39,002	$ 247,632

Amounts payable or recoverable for reinsurance on paid and unpaid claims are not subject to periodic or maximum limits. During the period April 6, 2011 to September 30, 2011, the Company did not write off any reinsurance balances nor did it commute any ceded reinsurance other than the recapture discussed below under *Reserve Facility.*

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

The Company has not entered into any reinsurance agreements in which the reinsurer may unilaterally cancel any reinsurance for reasons other than nonpayment of premiums or other similar credit issues.

The Company has the following significant reinsurance agreements as of September 30, 2011:

Reserve Facility

Pursuant to the F&G Stock Purchase Agreement, on April 7, 2011, FGL Insurance recaptured all of the life insurance business ceded to Old Mutual Reassurance (Ireland) Ltd. (OM Re), an affiliated company of OMGUK, FGL s former parent. OM Re transferred assets with a fair value of $653,684 to FGL Insurance in settlement of all of OM Re s obligations under these reinsurance agreements. The fair value of the transferred assets, which was based on the economic reserves, was approved by the Maryland Insurance Administration. No gain or loss was recognized in connection with the recapture. The fair value of the assets acquired and liabilities assumed is reflected in the purchase price allocation. See Note 16, Acquisition, for additional details.

HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On April 7, 2011 FGL Insurance ceded to Raven Re, on a coinsurance basis, a significant portion of the business recaptured from OM Re. Raven Re was capitalized by a $250 capital contribution from FGL Insurance and a surplus note (i.e., subordinated debt) issued to OMGUK in the principal amount of $95,000 (see Note 8 for the terms of such note). The proceeds from the surplus note issuance and the surplus note are reflected in the purchase price allocation. Raven Re financed $535,000 of statutory reserves for this business with a letter of credit facility provided by an unaffiliated financial institution and guaranteed by OMGUK and HFG.

On April 7, 2011, FGL Insurance entered into a reimbursement agreement with Nomura Bank International plc (Nomura) to establish a reserve facility and Nomura charged an upfront structuring fee (the Structuring Fee). The Structuring Fee was in the amount of $13,750 and is related to the retrocession of the life business recaptured from OM Re and related credit facility. The Structuring Fee was deferred and was fully amortized as of September 30, 2011 as a result of the termination of the reserve facility in connection with FGL Insurance accelerating the effective date of the amended and restated Raven Springing Amendment which is described in the Wilton Agreement discussion below.

Commissioners Annuity Reserve Valuation Method Facility (CARVM)

Effective September 30, 2008, FGL Insurance entered into a yearly renewable term quota share reinsurance agreement with OM Re, whereby OM Re assumes a portion of the risk that policyholders exercise the waiver of surrender charge features on certain deferred annuity policies. This agreement did not meet risk transfer requirements to qualify as reinsurance under US GAAP. Under the terms of the agreement, the Company expensed net fees of $1,809 for the period from April 6, 2011 to September 30, 2011. Although this agreement does not provide reinsurance for reserves on a US GAAP basis, it does provide for reinsurance of reserves on a statutory basis. The statutory reserves are secured by a letter of credit with Old Mutual plc of London, England (OM), OMGUK s parent.

Wilton Agreement

On January 26, 2011, HFG entered into a commitment agreement (the Commitment Agreement) with Wilton Re U.S. Holdings, Inc. (Wilton) committing Wilton Reassurance Company (Wilton Re), a wholly-owned subsidiary of Wilton and a Minnesota insurance company to enter into certain coinsurance agreements with FGL Insurance. On April 8, 2011, FGL Insurance ceded significantly all of the remaining life insurance business that it had retained to Wilton Re under the first of the two amendments with Wilton. FGL Insurance transferred assets with a fair value of $535,826, net of ceding commission, to Wilton Re. FGL Insurance considered the effects of the first amendment in the opening balance sheet and purchase price allocation.

Effective April 26, 2011, HFG elected the second amendment (the Raven Springing Amendment) that commits FGL Insurance to cede to Wilton Re all of the business currently reinsured with Raven Re (the Raven Block) on or before December 31, 2012, subject to regulatory approval. The Raven Springing Amendment was intended to mitigate the risk associated with HFG s obligation under the F&G Stock Purchase Agreement to replace the Raven Re reserve facility by December 31, 2012. On September 9, 2011, FGL Insurance and Wilton Re executed an amended and restated Raven Springing Amendment whereby the recapture of the business ceded to Raven Re by FGL Insurance and the re-cession to Wilton Re closed on October 17, 2011 with an effective date of October 1, 2011. See Note 17, Subsequent Events for additional details regarding the closing of the Raven Springing Amendment.

Pursuant to the terms of the Raven Springing Amendment, the amount payable to Wilton at the closing of such amendment was adjusted to reflect the economic performance for the Raven Block from January 1, 2011 until the effective time of the closing of the Raven Springing Amendment. The estimated economic performance for the period from January 1, 2011 to April 6, 2011 was considered in the opening balance sheet and purchase price allocation. However, Wilton Re had no liability with respect to the Raven Block prior to the effective date of the

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HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Raven Springing Amendment. The Company recorded a charge of $10,426 for the estimated economic performance of the business for the period from April 6, 2011 to September 30, 2011.

FGL Insurance has a significant concentration of reinsurance with Wilton Re that could have a material impact on FGL Insurance s financial position. As of September 30, 2011, the net amount recoverable from Wilton Re was $609,340. FGL Insurance monitors both the financial condition of individual reinsurers and risk concentration arising from similar geographic regions, activities and economic characteristics of reinsurers to reduce the risk of default by such reinsurers.

Additional information regarding the Company s reinsurance agreements as of and for the period ended September 30, 2011 is as follows:

		Insurance Premiums and Other Considerations:		
	Life Insurance In-Force	Annuity Product Charges	Traditional Life Insurance Premiums	Total Insurance Premiums and Other Considerations
Gross amounts	$ 2,256,696	$ 68,436	$ 157,772	$ 226,208
Ceded to other companies	(1,180,412)	(18,776)	(141,628)	(160,404)
Assumed from other companies	22,641		22,858	22,858
Net amount	$ 1,098,925	$ 49,660	$ 39,002	$ 88,662
Percentage of amount	2.06%	0.00%	58.61%	25.78%

(14) Related Party Transactions

On March 7, 2011, HGI entered into an agreement (the Transfer Agreement) with the Master Fund whereby on March 9, 2011, (i) HGI acquired from the Master Fund a 100% membership interest in HFG, which was the buyer under the F&G Stock Purchase Agreement, between HFG and OMGUK, pursuant to which HFG agreed to acquire all of the outstanding shares of capital stock of FGL and certain intercompany loan agreements between OM Group, as lender, and FGL, as borrower, and (ii) the Master Fund transferred to HFG the sole issued and outstanding Ordinary Share of FS Holdco, a Cayman Islands exempted limited company (together, the Insurance Transaction). In consideration for the interests in HFG and FS Holdco, HGI agreed to reimburse the Master Fund for certain expenses incurred by the Master Fund in connection with the Insurance Transaction (up to a maximum of $13,300) and to submit certain expenses of the Master Fund for reimbursement by OM Group under the F&G Stock Purchase Agreement. The Transfer Agreement and the transactions contemplated thereby, including the F&G Stock Purchase Agreement, was approved by HGI s Board of Directors upon a determination by a special committee (the FGL Special Committee) comprised solely of directors who were independent under the rules of the NYSE, that it was in the best interests of HGI and its stockholders (other than the Master Fund and its affiliates) to enter into the Transfer Agreement and proceed with the Insurance Transaction. On April 6, 2011, the Company completed the FGL

Acquisition.

FS Holdco is a holding company, which is the indirect parent company of Front Street. FS Holdco has not engaged in any significant business other than transactions contemplated in connection with the Insurance Transaction.

On May 19, 2011, the FGL Special Committee unanimously determined that it is (i) in the best interests of HGI for Front Street and FGL to enter into a reinsurance agreement (the Reinsurance Agreement), pursuant to which Front Street would reinsure up to $3,000,000 of insurance obligations under annuity contracts of FGL and (ii) in the best interests of HGI for Front Street and Harbinger Capital Partners II LP (HCP II), an affiliate of the Master Fund, to enter into an investment management agreement (the Investment Management Agreement), pursuant to which HCP II would be appointed as the investment manager of up to $1,000,000 of assets securing Front Street s reinsurance obligations under the Reinsurance Agreement, which assets will be deposited in a reinsurance trust account for the benefit of FGL pursuant to a trust agreement (the Trust Agreement). On May 19, 2011, HGI s

HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

board of directors approved the Reinsurance Agreement, the Investment Management Agreement, the Trust Agreement and the transactions contemplated thereby. The FGL Special Committee s consideration of the Reinsurance Agreement, the Trust Agreement, and the Investment Management Agreement was contemplated by the terms of the Transfer Agreement. In considering the foregoing matters, the FGL Special Committee was advised by independent counsel and received an independent third-party fairness opinion.

The Company s pre-closing and closing obligations under the F&G Stock Purchase Agreement, including payment of the purchase price, were guaranteed by the Master Fund. Pursuant to the Transfer Agreement, HGI entered into a Guaranty Indemnity Agreement (the Guaranty Indemnity) with the Master Fund, pursuant to which HGI agreed to indemnify the Master Fund for any losses incurred by it or its representatives in connection with the Master Fund s guaranty of the Company s pre-closing and closing obligations under the F&G Stock Purchase Agreement.

HGI has advanced amounts to the Company to fund collateral posted by the Company under the Nomura reserve facility described in Note 13, Reinsurance. As of September 30, 2011, the amounts due to HGI, which are included in Other Liabilities, aggregated $49,339, which was subsequently repaid in October 2011 upon the termination of the reserve facility and return of the collateral.

(15) Insurance Subsidiary Financial Information and Regulatory Matters

The Company s insurance subsidiaries file financial statements with state insurance regulatory authorities and the National Association of Insurance Commissioners (NAIC) that are prepared in accordance with Statutory Accounting Principles (SAP) prescribed or permitted by such authorities, which may vary materially from US GAAP. Prescribed SAP includes the Accounting Practices and Procedures Manual of the NAIC as well as state laws, regulations and administrative rules. Permitted SAP encompasses all accounting practices not so prescribed. The principal differences between statutory financial statements and financial statements prepared in accordance with US GAAP are that statutory financial statements do not reflect VOBA and DAC, some bond portfolios may be carried at amortized cost, assets and liabilities are presented net of reinsurance, contractholder liabilities are generally valued using more conservative assumptions and certain assets are non-admitted. Accordingly, statutory operating results and statutory capital and surplus may differ substantially from amounts reported in the US GAAP basis financial statements for comparable items. For example, in accordance with the US GAAP acquisition method of accounting, the amortized cost of FGL s invested assets were adjusted to fair value as of the FGL Acquisition Date while it was not adjusted for statutory reporting. Thus, the net unrealized gains on a statutory basis were $697,825 (unaudited) as of September 30, 2011 compared to net unrealized gains of $418,210 on a US GAAP basis, as reported in Note 3, Investments.

The Company s insurance subsidiaries statutory financial statements are based on a December 31 year end. The total statutory capital and surplus of FGL Insurance was $801,945 (unaudited) and $902,118 as of September 30, 2011 and December 31, 2010, respectively. The total adjusted statutory capital of FGL Insurance was $830,225 (unaudited) and $902,118 at September 30, 2011 and December 31, 2010, respectively. FGL Insurance had statutory net income of $22,094 (unaudited) and $245,849 for the nine months ended September 30, 2011 and year ended December 31, 2010, respectively.

Life insurance companies are subject to certain Risk-Based Capital (RBC) requirements as specified by the NAIC. The 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 and (iv) business risk. The Company monitors the RBC of FGL s insurance subsidiaries. As of September 30, 2011, each of FGL s insurance subsidiaries has

exceeded the minimum RBC requirements.

The Company s insurance subsidiaries are restricted by state laws and regulations as to the amount of dividends they may pay to their parent without regulatory approval in any year, the purpose of which is to protect affected insurance policyholders, depositors or investors. Any dividends in excess of limits are deemed extraordinary and require approval. Based on statutory results as of December 31, 2010, in accordance with applicable dividend restrictions

HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the Company s subsidiaries could pay ordinary dividends of $90,212 to HFG in 2011. On December 20, 2010, FGL Insurance paid a dividend to OMGUK (through FGL) in the amount of $59,000, with respect to its 2009 results. Based on its 2010 fiscal year results, FGL Insurance is able to declare an ordinary dividend up to $31,212 through December 20, 2011 (taking into account the December 20, 2010 dividend payment of $59,000). In addition, between December 21, 2011 and December 31, 2011, FGL Insurance may be able to declare an additional ordinary dividend in the amount of 2011 eligible dividends of $90,212, less any dividends paid in the previous twelve months. On September 29, 2011, FGL Insurance paid a dividend to FGL in the amount of $20,000, with respect to its 2011 results, thus reducing the amount of cumulative dividends payable to FGL without regulatory approval after September 30, 2011 to $11,212 through December 20, 2011 and $70,212 thereafter through December 31, 2011.

(16) Acquisition

FGL

On April 6, 2011, the Company acquired all of the outstanding shares of capital stock of FGL and certain intercompany loan agreements between the seller, as lender, and FGL, as borrower, for cash consideration of $350,000, which amount could be reduced by up to $50,000 post closing if certain regulatory approval is not received (as discussed further below). The Company incurred $18,300 of expenses related to the FGL Acquisition, including $5,000 of the $350,000 cash purchase price which has been re-characterized as an expense since the seller made a $5,000 expense reimbursement to the Master Fund upon closing of the FGL Acquisition. Such expenses are included in Acquisition and operating expenses in the Consolidated Statement of Operations for the year ended September 30, 2011. The FGL Acquisition continued HGI s strategy of obtaining controlling equity stakes in subsidiaries that operate across a diversified set of industries.

Net Assets Acquired

The acquisition of FGL has been 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. The fair values assigned to the assets acquired and liabilities assumed are based on valuations using management s best estimates and assumptions and are preliminary pending the completion of the valuation analysis of selected assets and liabilities. During the measurement period (which is not to exceed one year from the acquisition date), the Company is required to retrospectively adjust the provisional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets or liabilities as of that date. Certain estimated values are not yet finalized and are subject to change, which could result in significant retrospective adjustments affecting the bargain purchase gain described below and other previously reported amounts. The more significant items which are provisional and subject to change during the measurement period include deferred income taxes, particularly the related valuation allowance, and the contingent purchase price reduction, both as described below. The following table summarizes the

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HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

preliminary amounts recognized at fair value for each major class of assets acquired and liabilities assumed as of the FGL Acquisition Date:

Investments, cash and accrued investment income, including cash acquired of $1,040,470	$ 17,705,419
Reinsurance recoverables	929,817
Intangibles (VOBA)	577,163
Deferred income taxes	256,584
Other assets	72,801
Total assets acquired	19,541,784
Contractholder funds and future policy benefits	18,415,022
Liability for policy and contract claims	60,400
Note payable	95,000
Other liabilities	475,285
Total liabilities assumed	19,045,707
Net assets acquired	496,077
Cash consideration, net of $5,000 re-characterized as expense	345,000
Bargain purchase gain	$ 151,077

The application of acquisition accounting resulted in a bargain purchase gain of $151,077, which is reflected in the Consolidated Statement of Operations for the year ended September 30, 2011. The amount of the bargain purchase gain is equal to the amount by which the fair value of net assets acquired exceeded the consideration transferred. The Company believes that the resulting bargain purchase gain is 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 FGL Acquisition Date, (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 FGL Acquisition Date and (d) an independent appraisal of FGL s business indicated that its fair value was in excess of the purchase price.

Contingent Purchase Price Reduction

As contemplated by the terms of the F&G Stock Purchase Agreement and more fully discussed in Note 14 Related Party Transactions, Front Street subject to regulatory approval, will enter into a reinsurance agreement (the Front Street Reinsurance Transaction) with FGL whereby Front Street would reinsure up to $3,000,000 of insurance obligations under annuity contracts of FGL, and HCP II, would be appointed the investment manager of up to $1,000,000 of assets securing Front Street s reinsurance obligations under the reinsurance agreement. These assets would be deposited in a reinsurance trust account for the benefit of FGL.

The F&G Stock Purchase Agreement provides for up to a $50,000 post-closing reduction in purchase price if the Front Street Reinsurance Transaction is not approved by the Maryland Insurance Administration or is approved subject to certain restrictions or conditions. Based on management s assessment as of September 30, 2011, it is not probable that the purchase price will be required to be reduced; therefore no value was assigned to the contingent purchase price reduction as of the FGL Acquisition Date.

HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reserve Facility

As discussed in Note 13, Reinsurance, pursuant to the F&G Stock Purchase Agreement on April 7, 2011, FGL recaptured all of the life business ceded to OM Re. OM Re transferred assets with a fair value of $653,684 to FGL in settlement of all of OM Re s obligations under these reinsurance agreements. Such amounts are reflected in FGL s purchase price allocation. Further, on April 7, 2011, FGL ceded on a coinsurance basis a significant portion of this business to Raven Re. Certain transactions related to Raven Re such as the surplus note issued to OMGUK in the principal amount of $95,000, which was used to partially capitalize Raven Re and the Structuring Fee of $13,750 are also reflected in FGL s purchase price allocation. See Note 13, Reinsurance for additional details.

Intangible Assets

VOBA represents the estimated fair value of the right to receive future net cash flows from in-force contracts in a life insurance company acquisition at the acquisition date. VOBA is being amortized over the expected life of the contracts in proportion to either gross premiums or gross profits, depending on the type of contract. Total gross profits include both actual experience as it arises and estimates of gross profits for future periods. FGL will regularly evaluate and adjust the VOBA balance with a corresponding charge or credit to earnings for the effects of actual gross profits and changes in assumptions regarding estimated future gross profits. The amortization of VOBA is reported in Amortization of intangibles in the Consolidated Statement of Operations. The proportion of the VOBA balance attributable to each of the product groups associated with this acquisition is as follows: 80.4% related to FIA s, and 19.6% related to deferred annuities.

Refer to Note 6, Intangible Assets for FGL s estimated future amortization of VOBA, net of interest, for the next five fiscal years.

Deferred Taxes

The future tax effects of temporary differences between financial reporting and tax bases of assets and liabilities are measured at the balance sheet date and are recorded as deferred income tax assets and liabilities. The acquisition of FGL is considered a non-taxable acquisition under tax accounting criteria, therefore, the tax basis of assets and liabilities reflect an historical (carryover) basis at the FGL Acquisition Date. However, since assets and liabilities reported under US GAAP are adjusted to fair value as of the FGL Acquisition Date, the deferred tax assets and liabilities are also adjusted to reflect the effects of those fair value adjustments. This resulted in shifting FGL into a significant net deferred tax asset position at the FGL Acquisition Date, principally due to the write-off of DAC and the establishment of a significantly lesser amount of VOBA which resulted in reducing the associated deferred tax liabilities and thereby shifting FGL s net deferred tax position. This shift, coupled with the application of certain tax limitation provisions that apply in the context of a change in ownership transaction, most notably Section 382 of the Internal Revenue Code (the IRC), relating to Limitation in Net Operating Loss Carryforwards and Certain Built-in Losses Following Ownership Change, as well as other applicable provisions under Sections 381-384 of the IRC, require FGL to reconsider the realization of FGL s gross deferred tax asset position and the need to establish a valuation allowance against it. Management determined that a valuation allowance against a portion of the gross deferred tax asset (DTA) would be required.

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HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The components of the net deferred tax assets as of the FGL Acquisition Date are as follows:

Deferred tax assets	
DAC	$ 96,764
Insurance reserves & claim related adjustments	401,659
Net operating losses	128,437
Capital losses (carryovers and deferred)	267,468
Tax credits	75,253
Other deferred tax assets	27,978
Total deferred tax assets	997,559
Valuation allowance	(405,370)
Deferred tax assets, net of valuation allowance	592,189
Deferred tax liabilities	
VOBA	202,007
Investments	121,160
Other deferred tax liabilities	12,438
Total deferred tax liabilities	335,605
Net deferred tax assets	$ 256,584

Results of FGL since the FGL Acquisition Date

The following table presents selected financial information reflecting results for FGL that are included in the Consolidated Statement of Operations for the year ended September 30, 2011:

	For the Period April 6, 2011 to September 30, 2011
Total revenues	$ 290,886
Net income	$ 23,703

Supplemental Pro Forma Information Unaudited

The following table reflects the Company s supplemental pro forma results as if the FGL Acquisition had occurred on October 1, 2009. The pro forma information was derived from the historical financial information of HGI and FGL for 2011 and 2010. The historical financial information has been adjusted to give effect to the pro forma events that are

directly attributable to the acquisition and factually supportable and expected to have a continuing impact on the combined results.

	Year Ended September 30,	
	2011	**2010**
Pro forma:		
Total revenues	$ 976,633	$ 953,911
Net income (loss)	$ 239,406	$ (166,843)

The pro forma information primarily reflects the following pro forma adjustments:

Reduction in net investment income to reflect amortization of the premium on fixed maturity securities available-for-sale resulting from the fair value adjustment of these assets;

HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Reversal of amortization associated with the elimination of FGL s historical DAC;

Amortization of VOBA associated with the establishment of VOBA arising from the acquisition;

Adjustments to reflect the impacts of the recapture of the life business from OM Re and the retrocession of the majority of the recaptured business and the reinsurance of certain life business previously not reinsured to an unaffiliated third party reinsurer;

Adjustments to eliminate interest expense on notes payable to seller and add interest expense on the new surplus note payable;

Amortization of reserve facility Structuring Fee.

Reversal of the change in the deferred tax valuation allowance included in the income tax provision.

Acquisition Related Charges

Acquisition related charges of $18,300 are reflected in Acquisition and operating expenses and relate to the FGL Acquisition. Such charges consist of the $13,300 of expenses reimbursed to the Master Fund, discussed in Note 14, Related Party Transactions, and the $5,000 portion of the cash purchase price recharacterized as an expense, as discussed above.

(17) Subsequent Events

Raven Springing Amendment

On October 17, 2011, FGL Insurance and Wilton Re executed the revised and restated Raven Springing Amendment with an effective date of October 1, 2011. As a result, FGL Insurance recaptured from Raven Re all of the business that had been financed with a letter of credit facility provided by an unaffiliated financial institution and guaranteed by OMGUK and HFG. This letter of credit facility was terminated upon recapture of the business, eliminating any future financial obligations related to this reserve facility. In connection with the termination, the $95,000 surplus note issued by Raven Re was settled at face value without the payment of interest.

FGL Insurance transferred cash and invested assets totaling approximately $595,359 to Wilton Re in connection with the execution of the revised and restated Raven Springing Amendment.

Execution of the Raven Springing Amendment fulfills the Company s obligation under the F&G Stock Purchase Agreement to replace the Raven Re reserve facility by December 31, 2012.

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SCHEDULE I

HARBINGER F&G, LLC (Parent Only)

CONDENSED BALANCE SHEET
(In thousands)

		September 30, 2011
ASSETS		
Investments in consolidated subsidiaries	$	425,777
Notes and accrued interest receivable from insurance subsidiary		243,918
Collateral posted on behalf of insurance subsidiary		49,339
Total assets	$	719,034
LIABILITIES AND MEMBER S EQUITY		
Amounts due to Harbinger Group, Inc. (Parent)	$	49,339
Accounts payable and accrued expenses		1,558
Total liabilities		50,897
Member s equity:		
Contributed capital		379,359
Retained earnings		129,285
Accumulated other comprehensive income		159,493
Total member s equity		668,137
Total liabilities and member s equity	$	719,034

See accompanying Independent Auditors Report.

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SCHEDULE I
(continued)

HARBINGER F&G, LLC (Parent Only)

CONDENSED STATEMENT OF OPERATIONS
(In thousands)

	Year Ended September 30, 2011
Revenues	$
Cost of revenues	
Operating expenses:	
Acquisition related charges	18,300
General and administrative expenses	580
Total operating expenses	18,880
Operating loss	(18,880)
Other income (expense):	
Interest expense	(1,926)
Interest income from subsidiary	15,414
Bargain purchase gain from business acquisition	151,077
Equity in net income of subsidiaries	3,812
Income before income taxes	149,497
Income tax expense	
Net income	$ 149,497

See accompanying Independent Auditors Report.

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SCHEDULE I
(continued)

HARBINGER F&G, LLC (Parent Only)

CONDENSED STATEMENT OF CASH FLOWS
(In thousands)

	Year Ended September 30, 2011
Cash flows from operating activities:	
Net income	$ 149,497
Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Bargain purchase gain from business acquisition	(151,077)
Equity in net income of subsidiaries	(3,812)
Collateral posted on behalf of insurance subsidiary	(49,339)
Net repayment of notes and accrued interest from subsidiary	4,586
Increase in accounts payable and accrued expenses	1,558
Net cash used in operating activities	(48,587)
Cash flows from investing activities:	
Acquisition of insurance subsidiary	(345,000)
Capital contributions to subsidiaries	(12,904)
Net cash used in investing activities	(357,904)
Cash flows from financing activities:	
Capital contributions from parent	377,152
Advance from parent	49,339
Dividend payment	(20,000)
Net cash provided by financing activities	406,491
Net increase in cash and cash equivalents	
Cash and cash equivalents at beginning of period	
Cash and cash equivalents at end of period	$

See accompanying Independent Auditors Report.

3. HGI FUNDING LLC FINANCIAL STATEMENTS.

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Independent Auditors Report

The Board of Directors
HGI Funding LLC:

We have audited the accompanying balance sheet of HGI Funding LLC (the Company) as of September 30, 2011 and the related statements of operations, member s equity, and cash flows for the period from January 12, 2011 (Inception) through September 30, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2011 and the results of their operations and their cash flows for the period from January 12, 2011 (Inception) through September 30, 2011 in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP
New York, New York
December 13, 2011

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HGI FUNDING LLC

BALANCE SHEET
(In thousands)

		September 30, 2011
ASSETS		
Investments (Notes 4 and 5)	$	274,750
Cash and cash equivalents		38,512
Broker receivable (Note 2)		14,874
Dividends and interest receivable		111
Total assets	$	328,247
LIABILITIES AND MEMBER S EQUITY		
Securities sold, not yet purchased (Note 2)	$	296
Broker payable (Note 2)		4,465
Other liabilities (Note 2)		14,492
Total liabilities		19,253
Commitments and contingencies (Note 7)		
Member s equity:		
Contributed capital (Note 6)		350,000
Accumulated deficit		(41,006)
Total member s equity		308,994
Total liabilities and member s equity	$	328,247

See accompanying notes to financial statements.

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HGI FUNDING LLC

STATEMENT OF OPERATIONS
(In thousands)

		Period from January 12, 2011 (Inception) through September 30, 2011
Investment income:		
Dividend and interest income	$	344
Expenses:		
Investment fees		10
Interest expense		38
Total expenses		48
Net investment income		296
Realized and unrealized gains and losses on investments:		
Net realized gains on sale of investments		1,906
Net realized gains on foreign exchange and futures contract		822
Net unrealized losses on investments		(44,102)
Net unrealized gains on foreign exchange		72
Net recognized losses on investments		(41,302)
Loss before income taxes		(41,006)
Income tax expense (Note 8)		
Net loss	$	(41,006)

See accompanying notes to financial statements.

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HGI FUNDING LLC

STATEMENT OF MEMBER S EQUITY
(In thousands)

	Contributed Capital	Accumulated Deficit	Total Member s Equity
Balances at January 12, 2011 (Inception)	$	$	$
Cash capital contributions from Harbinger Group Inc.	350,000		350,000
Net loss and comprehensive loss		(41,006)	(41,006)
Balances at September 30, 2011	$ 350,000	$ (41,006)	$ 308,994

See accompanying notes to financial statements.

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HGI FUNDING LLC

STATEMENT OF CASH FLOWS
(In thousands)

	Period from January 12, 2011 (Inception) through September 30, 2011
Cash flows from operating activities:	
Net loss	$ (41,006)
Adjustments to reconcile net loss to net cash used in operating activities:	
Unrealized losses on investments, net	44,102
Cost of trading securities acquired for resale	(770,955)
Proceeds from trading securities sold	755,286
Changes in operating assets and liabilities:	
Broker receivable	(14,874)
Dividend and interest receivable	(111)
Securities sold, not yet purchased	296
Broker payable	4,465
Other liabilities	14,492
Net cash used in operating activities	(8,305)
Cash flows from investing activities:	
Cost of investments acquired for holding	(332,715)
Proceeds from sales of investments acquired for holding	29,532
Net cash used in investing activities	(303,183)
Cash flows from financing activities:	
Capital contributions	350,000
Net cash provided by financing activities	350,000
Net increase in cash and cash equivalents	38,512
Cash and cash equivalents at beginning of period	
Cash and cash equivalents at end of period	$ 38,512

See accompanying notes to financial statements.

HGI FUNDING LLC

NOTES TO FINANCIAL STATEMENTS
(Amounts in thousands)

(1) Basis of Presentation and Nature of Business

HGI Funding LLC (HGI Funding or the Company) is a direct, wholly-owned subsidiary of Harbinger Group Inc. (HGI). HGI is a diversified holding company focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries. HGI s shares of common stock trade on the New York Stock Exchange (NYSE) under the symbol HRG.

HGI Funding, a Delaware Limited Liability Company, was formed on January 12, 2011 to manage a portion of HGI s available cash by investing in equity and debt instruments and to acquire positions in potential acquisition targets. The Company operates in one segment and has a fiscal year-end of September 30. Fiscal 2011 represents the period of January 12, 2011 through September 30, 2011.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

(2) Significant Accounting Policies and Practices

The following is a summary of significant accounting policies followed by the Company.

Revenue Recognition

Dividends and interest income are recorded in Dividend and interest income and are recognized when earned. Amortization of premiums and accretion of discounts on investments in fixed maturity securities are reflected in Dividend and interest income over the contractual terms of the investments in a manner that produces a constant effective yield.

Investments

The Company s investments consist of marketable equity and debt securities classified as trading and carried at fair value with unrealized gains and losses recognized in earnings, including certain securities for which the Company has elected the fair value option under Accounting Standards Codification (ASC) Topic 825, *Financial Instruments* , which would otherwise have been classified as available-for-sale. Investment transactions are accounted for as of the trade date and any realized gains or losses from such transactions are calculated on a first in, first out (FIFO) basis and are included in the appropriate caption in the Statement of Operations.

Cash and Cash Equivalents

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

Broker Receivable and Broker Payable

Broker receivables include amounts receivable for securities not yet delivered by the Company to the purchaser prior to the settlement date. Broker payables include amounts payable for securities not yet received by the Company prior

to the settlement date.

Securities Sold, Not Yet Purchased

Securities sold, not yet purchased consist of equity and debt securities that the Company has sold short. In order to facilitate a short sale, the Company borrows the securities from a third party and delivers the securities to the buyer. The Company will be required to cover its short sale in the future through the purchase of the security in the market at the prevailing market price and deliver it to the counterparty from which it borrowed. The Company is

HGI FUNDING LLC

NOTES TO FINANCIAL STATEMENTS (Continued)

exposed to a loss to the extent that the security price increases during the time from when the Company borrowed the security to when the Company purchases it in the market to cover the short sale.

As of September 30, 2011, the Company had securities sold, not yet purchased with a cost basis of $305 and accumulated net unrealized loss of $9.

Other Liabilities

Other liabilities consist of cash short balances payable for unsettled securities transactions held at the clearing brokers.

Foreign Currency

Foreign currency balances that are monetary items have been remeasured into U.S. Dollars at the rate of exchange existing at September 30, 2011. Foreign currency transactions are remeasured into U.S. Dollars at the rate of exchange on the date of the transaction. Any realized or unrealized foreign exchange remeasurements are included in the appropriate caption in the Statement of Operations.

Recent Accounting Pronouncements Not Yet Adopted

Fair Value Measurement

In May 2011, the Financial Accounting Standards Board issued amended accounting guidance to achieve a consistent definition of and common requirements for measurement of and disclosure concerning fair value between US GAAP and International Financial Reporting Standards. This amended guidance is effective for the Company beginning in the second quarter of our fiscal year ending September 30, 2012. We are currently evaluating the impact of this new accounting guidance on our financial statements.

Subsequent Events

The Company evaluated subsequent events through the date when the financial statements were issued. During this period, the Company did not have any material recognizable, or unrecognizable, subsequent events.

(3) Significant Risks and Uncertainties

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Due to the inherent uncertainty involved in making estimates, actual results in future periods could differ from those estimates. The Company s significant estimates, which are susceptible to change in the near term, relate to the fair value of certain invested assets.

Credit risk

Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The maximum amount of credit expense is represented by the carrying amounts of investments.

Bankruptcy or insolvency of security custodians may cause the Company s rights to be delayed with respect to the cash and cash equivalents and investments held in the custodial relationship. The Company monitors the credit quality and financial position of its custodians, and should it decline significantly, the Company will move cash holdings and custodial relationships to another institution. The Company has a policy to only enter into custodial relationships with financial institutions with a Standard & Poor s rating of at least A when it is designated.

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HGI FUNDING LLC

NOTES TO FINANCIAL STATEMENTS (Continued)

Market risk

Market risk is the risk of loss of fair value resulting from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and equity prices. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial instruments are traded.

The Company is exposed to equity price risk since it invests in marketable equity securities, which as of September 30, 2011, are all classified as trading securities. The Company follows an investment policy approved by the board of directors of HGI which sets certain restrictions on the amounts and types of investments it may make.

(4) Investments

The Company s investments are summarized as follows:

		September 30, 2011
Trading:		
Marketable equity securities	$	262,085
Marketable debt securities		12,665
Total	$	274,750

There was $1,906 of net realized gains and $44,102 of net unrealized losses recognized during Fiscal 2011.

(5) Fair Value of Financial Instruments

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

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

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

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

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HGI FUNDING LLC

NOTES TO FINANCIAL STATEMENTS (Continued)

The carrying amounts and estimated fair values of the Company s financial instruments for which the disclosure of fair values is required were as follows (asset/(liability)):

	September 30, 2011	
	Carrying Amount	Fair Value
Investments	$ 274,750	$ 274,750
Cash and cash equivalents	38,512	38,512
Securities sold, not yet purchased	(296)	(296)
Other liabilities (cash short positions)	(14,492)	(14,492)

The carrying amounts of broker receivables and payables as well as dividend and interest receivable approximate fair value due to their short duration and, accordingly, they are not presented in the table above. The fair values of investments, cash and cash equivalents, securities sold, not yet purchased and cash short positions, which are included in other liabilities, are generally based on quoted or observed market prices.

Financial assets and liabilities measured and carried at fair value on a recurring basis in the financial statements are summarized, according to the hierarchy previously described, as follows:

As of September 30, 2011	Level 1	Level 2	Level 3	Total
Assets				
Investments	$ 238,062	$ 36,688	$	$ 274,750
Cash and cash equivalents	38,512			38,512
Total assets carried at fair value	$ 276,574	$ 36,688	$	$ 313,262
Liabilities				
Securities sold, not yet purchased	$ 296	$	$	$ 296
Other liabilities (cash short positions)	14,492			14,492
Total liabilities carried at fair value	$ 14,788	$	$	$ 14,788

The Company measures the fair value of its securities based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the fixed maturity or equity security, and the Company consistently applies the valuation methodology to measure the security s fair value. The Company s fair value measurement is based on a market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities.

(6) Member s Equity

The Company was formed on January 12, 2011 by HGI to manage a portion of its available cash or to invest in possible acquisition targets while we search for additional acquisition opportunities. Member s equity consists of an accumulated deficit of $41,006 and capital contributions of $350,000 from HGI.

(7) Commitments and Contingencies

The Company does not have any commitments or contingencies that it believes may be material to its financial statements.

(8) Income Taxes

HGI Funding is a limited liability company wholly owned by HGI. For income tax purposes, the Company is a disregarded entity. Accordingly, the results of its operations are taxed as if the Company were part of HGI. As a result, income tax expense (benefit) is not recorded in the Company s financial statements.

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HGI FUNDING LLC

NOTES TO FINANCIAL STATEMENTS (Continued)

If the Company were a separate taxable entity, its income tax expense would be computed in accordance with ASC Topic 740, *Income Taxes*, and, on a pro forma basis, would have been $1,376 for the period ended September 30, 2011, all of which would have been current.

(9) Related Party Transactions

Since its inception, the Company has utilized the services of the management and staff of HGI and Harbinger Capital Partners, an affiliate of HGI. As many of these transactions are conducted between entities under common control, amounts charged for these services have not necessarily been based upon arms-length negotiations. It is not practicable to determine whether the amounts charged for such services represent amounts that might have been incurred on a stand-alone basis for the Company. For Fiscal 2011, the Company incurred an inconsequential amount of management expenses.