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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from to

Commission file number: 1-4219

Harbinger Group Inc.
(Exact name of registrant as specified in its charter)

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

(212) 906-8555
(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

HARBINGER GROUP INC.

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements:	3
Condensed Consolidated Balance Sheets as of June 30, 2013 and September 30, 2012	3
Condensed Consolidated Statements of Operations for the three and nine months ended June 30, 2013 and July 1, 2012	4
Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended June 30, 2013 and July 1, 2012	5
Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2013 and July 1, 2012	6
Notes to Condensed Consolidated Financial Statements	7
(1) Description of Business	7
(2) Basis of Presentation, Significant Accounting Policies and Practices and Recent Accounting Pronouncements	9
(3) Acquisitions	12
(4) Investments	23
(5) Derivative Financial Instruments	31
(6) Securitizations and Variable Interest Entities	36
(7) Equity-method investments	37
(8) Fair Value of Financial Instruments	38
(9) Goodwill and Intangibles, including deferred acquisition costs and value of business acquired	48
(10) Debt	50
(11) Defined Benefit Plans	53
(12) Reinsurance	54
(13) Stock Compensation	56
(14) Income Taxes	60
(15) Earnings Per Share	61
(16) Commitments and Contingencies	62
(17) Other Required Disclosures	64
(18) Related Party Transactions	68
(19) Segment Data	68
(20) Consolidating Financial Information	70
(21) Subsequent Event	75
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	76
Item 3. Quantitative and Qualitative Disclosures about Market Risk	112
Item 4. Controls and Procedures	116
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	123
Item 1A. Risk Factors	123
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	123
Item 3. Defaults Upon Senior Securities	123
Item 4. Mine Safety Disclosures	123
Item 5. Other Information	123
Item 6. Exhibits	124

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2013	September 30, 2012
	(Unaudited)	
ASSETS		
Investments:		
Fixed maturities	$ 15,578.3	$ 16,088.9
Equity securities	337.0	394.9
Derivatives	227.4	200.7
Asset-backed loans	430.2	180.1
Other invested assets	27.6	53.8
Total investments	16,600.5	16,918.4
Cash and cash equivalents	1,243.7	1,470.7
Receivables, net	611.3	414.4
Inventories, net	707.3	452.6
Accrued investment income	159.9	191.6
Reinsurance recoverable	2,371.0	2,363.1
Deferred tax assets	279.9	312.7
Properties, including oil and natural gas properties, net	999.4	221.6
Goodwill	1,470.2	694.2
Intangibles, including DAC and VOBA, net	2,649.9	1,988.5
Other assets	271.9	172.6
Total assets	$ 27,365.0	$ 25,200.4
LIABILITIES AND EQUITY		
Insurance reserves:		
Contractholder funds	$ 15,342.6	$ 15,290.4
Future policy benefits	3,576.2	3,614.8
Liability for policy and contract claims	66.9	91.1
Funds withheld from reinsurers	39.5	54.7
Total insurance reserves	19,025.2	19,051.0
Debt	4,554.3	2,167.0
Accounts payable and other current liabilities	843.4	754.2
Equity conversion feature of preferred stock	147.3	232.0
Employee benefit obligations	114.1	95.1
Deferred tax liabilities	508.4	382.4
Other liabilities	439.6	600.6
Total liabilities	25,632.3	23,282.3
Commitments and contingencies		
Temporary equity:		
Redeemable preferred stock	325.4	319.2
Harbinger Group Inc. stockholders' equity:		
Common stock	1.4	1.4
Additional paid-in capital	834.3	861.2
Retained earnings (Accumulated deficit)	9.7	(98.2)
Accumulated other comprehensive income	140.0	413.2
Total Harbinger Group Inc. stockholders' equity	985.4	1,177.6
Noncontrolling interest	421.9	421.3
Total permanent equity	1,407.3	1,598.9
Total liabilities and equity	$ 27,365.0	$ 25,200.4

See accompanying notes to condensed consolidated financial statements.

HARBINGER GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)

	Three months ended		Nine months ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
	(Unaudited)		(Unaudited)	
Revenues:				
Net consumer product sales	$ 1,089.8	$ 824.8	$ 2,947.8	$ 2,419.9
Oil and natural gas	37.8	—	54.5	—
Insurance premiums	19.0	12.1	46.9	42.2
Net investment income	189.6	179.2	539.7	539.0
Net investment gains (losses)	58.3	(12.9)	411.5	254.6
Insurance and investment product fees and other	16.1	9.0	44.4	28.2
Total revenues	1,410.6	1,012.2	4,044.8	3,283.9
Operating costs and expenses:				
Consumer products cost of goods sold	707.0	533.1	1,954.0	1,584.1
Oil and natural gas direct operating costs	18.1	—	26.9	—
Benefits and other changes in policy reserves	107.2	141.0	431.7	559.7
Selling, acquisition, operating and general expenses	310.7	213.6	879.6	692.4
Amortization of intangibles	85.0	43.0	220.6	158.5
Total operating costs and expenses	1,228.0	930.7	3,512.8	2,994.7
Operating income	182.6	81.5	532.0	289.2
Interest expense	(83.9)	(54.4)	(302.7)	(194.4)
Gain (loss) from the change in the fair value of the equity conversion feature of preferred stock	52.6	(125.5)	81.9	(124.0)
Gain on contingent purchase price reduction	—	—	—	41.0
Other income (expense), net	4.2	(17.5)	(7.7)	(26.0)
Income (loss) from continuing operations before income taxes	155.5	(115.9)	303.5	(14.2)
Income tax expense (benefit)	36.8	(5.8)	167.2	50.6
Net income (loss)	118.7	(110.1)	136.3	(64.8)
Less: Net income (loss) attributable to noncontrolling interest	15.1	25.0	(8.1)	18.8
Net income (loss) attributable to controlling interest	103.6	(135.1)	144.4	(83.6)
Less: Preferred stock dividends and accretion	12.0	14.0	36.3	45.6
Net income (loss) attributable to common and participating preferred stockholders	$ 91.6	$ (149.1)	$ 108.1	$ (129.2)
Net income (loss) per common share attributable to controlling interest:				
Basic	$ 0.45	$ (1.07)	$ 0.54	$ (0.93)
Diluted	$ 0.25	$ (1.07)	$ 0.30	$ (0.93)

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended		Nine months ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
	(Unaudited)		(Unaudited)	
Net income (loss)	$ 118.7	$ (110.1)	$ 136.3	$ (64.8)
Other comprehensive income (loss):				
Foreign currency translation (losses) gains	(7.8)	(34.1)	(25.4)	(30.5)
Net unrealized gain on derivative instruments				
Changes in derivative instruments before reclassification adjustment	3.2	3.2	4.6	0.4
Net reclassification adjustment for losses included in net income	(0.5)	(0.3)	(0.1)	3.2
Changes in derivative instruments after reclassification adjustment	2.7	2.9	4.5	3.6
Changes in deferred income tax asset/liability	(0.4)	(1.9)	(1.5)	(1.5)
Deferred tax valuation allowance adjustments	(0.5)	0.5	(0.1)	0.3
Net unrealized gain on derivative instruments	1.8	1.5	2.9	2.4
Actuarial adjustments to pension plans				
Changes in actuarial adjustments before reclassification adjustment	(0.6)	0.2	(2.2)	0.5
Net reclassification adjustment for losses included in cost of goods sold	0.3	0.2	1.0	0.3
Net reclassification adjustment for losses included in selling and general and administrative expenses	0.2	0.1	0.6	0.2
Changes in actuarial adjustments to pension plans	(0.1)	0.5	(0.6)	1.0
Changes in deferred income tax asset/liability	—	(0.1)	0.2	(0.1)
Deferred tax valuation allowance adjustments	—	—	0.1	—
Net actuarial adjustments to pension plans	(0.1)	0.4	(0.3)	0.9
Unrealized investment gains (losses):				
Changes in unrealized investment gains before reclassification adjustment	(559.2)	168.5	(379.1)	454.8
Net reclassification adjustment for gains included in net income	(35.3)	(41.9)	(281.8)	(175.7)
Changes in unrealized investment gains after reclassification adjustment	(594.5)	126.6	(660.9)	279.1
Adjustments to intangible assets	210.7	(61.3)	260.9	(92.5)
Changes in deferred income tax asset/liability	135.4	(22.9)	140.9	(65.4)
Net unrealized gain on investments	(248.4)	42.4	(259.1)	121.2
Non-credit related other-than-temporary impairment:				
Changes in non-credit related other-than-temporary impairment	—	0.1	—	(1.5)
Adjustments to intangible assets	—	—	—	0.6
Changes in deferred income tax asset/liability	—	—	—	0.3
Net non-credit related other than-temporary impairment	—	0.1	—	(0.6)
Net change to derive comprehensive income (loss) for the period	(254.5)	10.3	(281.9)	93.4
Comprehensive (loss) income	(135.8)	(99.8)	(145.6)	28.6
Less: Comprehensive (loss) income attributable to the noncontrolling interest:				
Net income (loss)	15.1	25.0	(8.1)	18.8
Other comprehensive loss	(2.5)	(13.7)	(9.6)	(12.0)
	12.6	11.3	(17.7)	6.8
Comprehensive (loss) income attributable to the controlling interest	$ (148.4)	$ (111.1)	$ (127.9)	$ 21.8

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended	
	June 30, 2013	July 1, 2012
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ 136.3	$ (64.8)
Adjustments to reconcile net income (loss) to operating cash flows:		
Depreciation of properties	65.0	28.8
Amortization of intangibles	220.6	158.5
Stock-based compensation	44.9	17.1
Amortization of debt issuance costs	10.3	7.4
Amortization of debt discount	1.1	0.6
Write-off of debt issuance costs on retired debt	15.5	2.9
Write-off of debt discount on retired debt	3.0	(0.5)
Deferred income taxes	164.6	57.9
Gain on contingent purchase price reduction	—	(41.0)
Cost of trading securities acquired for resale	—	(741.1)
Proceeds from trading securities sold	—	829.8
Interest credited/index credits to contractholder account balances	320.2	414.7
Amortization of fixed maturity discounts and premiums	24.4	67.9
Net recognized gains on investments and derivatives	(494.4)	(103.2)
Charges assessed to contractholders for mortality and administration	(23.9)	(10.4)
Deferred policy acquisition costs	(109.2)	(157.6)
Cash transferred to reinsurer	—	(176.8)
Non-cash increase to cost of goods sold due to the sale of HHI Business acquisition inventory	31.0	—
Non-cash restructuring and related charges	—	3.0
Changes in operating assets and liabilities:	(315.4)	(88.5)
Net change in cash due to operating activities	94.0	204.7
Cash flows from investing activities:		
Proceeds from investments sold, matured or repaid	7,396.3	4,386.3
Cost of investments acquired	(7,271.4)	(3,860.6)
Acquisitions, net of cash acquired	(2,013.7)	(185.1)
Asset-backed loans originated, net	(251.8)	(74.5)
Capital expenditures	(58.8)	(33.6)
Other investing activities, net	(0.6)	0.3
Net change in cash due to investing activities	(2,200.0)	232.8
Cash flows from financing activities:		
Proceeds from issuance of new debt	2,952.1	523.2
Repayment of debt, including tender and call premiums	(958.5)	(372.5)
Revolving credit facility activity	348.1	2.5
Debt issuance costs	(79.0)	(11.2)
Purchases of subsidiary stock, net	(73.9)	(85.0)
Contractholder account deposits	1,078.4	1,736.0
Contractholder account withdrawals	(1,323.7)	(1,505.4)
Dividend paid by subsidiary to noncontrolling interest	(12.1)	—
Dividends paid on preferred stock	(25.0)	(23.4)
Share based award tax withholding payments	(22.4)	(3.9)
Other financing activities, net	—	(1.0)
Net change in cash due to financing activities	1,884.0	259.3
Effect of exchange rate changes on cash and cash equivalents	(5.0)	(1.4)
Net (decrease) increase in cash and cash equivalents	(227.0)	695.4
Cash and cash equivalents at beginning of period	1,470.7	1,137.4
Cash and cash equivalents at end of period	$ 1,243.7	$ 1,832.8

See accompanying notes to condensed consolidated financial statements.

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Amounts in millions, except share and per share figures)

(1) Description of Business

Description of the Business

Harbinger Group Inc. ("HGI" and, collectively with its respective subsidiaries, the "Company") is a diversified holding company, the outstanding common stock of which is 74.2% owned, collectively, by Harbinger Capital Partners Master Fund I, Ltd. (the "Master Fund"), Global Opportunities Breakaway Ltd. and Harbinger Capital Partners Special Situations Fund, L.P. (together, the "Principal Stockholders"), not giving effect to the conversion rights of the Company's Series A Participating Convertible Preferred Stock (the "Series A Preferred Stock") or the Series A-2 Participating Convertible Preferred Stock (the "Series A-2 Preferred Stock", together the "Preferred Stock"). Such common stock ownership by the Principal Stockholders represents a voting interest of 55.6% in relation to the existing voting rights of all HGI's common and preferred stockholders. HGI's shares of common stock trade on the New York Stock Exchange ("NYSE") under the symbol "HRG."

HGI is focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries and growing acquired businesses. As such, the Company has gained controlling interests in Spectrum Brands Holdings, Inc., a Delaware corporation (collectively with its consolidated subsidiaries, where applicable, "Spectrum Brands"), and Fidelity & Guaranty Life Holdings, Inc., a Delaware corporation ("FGL") and formed Salus Capital Partners, LLC ("Salus"), Five Island Asset Management, LLC ("Five Island") and HGI Energy Holdings, LLC ("HGI Energy"). As of June 30, 2013, the Company's beneficial ownership of the outstanding common stock of Spectrum Brands was 59.2%. Spectrum Brands is a global branded consumer products company which trades on the NYSE under the symbol "SPB." FGL, a wholly-owned subsidiary, is a provider of annuity and life insurance products in the United States of America. Salus is a provider of secured asset-based loans to entities across a variety of industries. HGI Energy holds an 74.5% equity investment in an oil and natural gas joint venture with EXCO Resources, Inc. ("EXCO").

In December 2012 and January 2013, the Company closed a secondary offering, in which the Principal Stockholders offered a total of 23.0 million shares of common stock at a price to the public of $7.50 per share. The Company did not receive any proceeds from the sale of shares in this offering.

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

In December 2012, Spectrum Brands acquired the residential hardware and home improvement business (the "HHI Business") from Stanley Black & Decker, Inc. ("Stanley Black & Decker"), (the "Hardware Acquisition"). The HHI Business has a broad portfolio of recognized brand names, including Kwikset, Weiser, Baldwin, National Hardware, Stanley, FANAL and Pfister, as well as patented technologies such as Smartkey, a rekeyable lockset technology, and Smart Code Home Connect. On April 8, 2013, the Company completed the Hardware Acquisition, which included the acquisition of certain assets of Tong Lung Metal Industry Co. Ltd., a Taiwan Corporation ("TLM Taiwan"), which is involved in the production of residential locksets. For information pertaining to the Hardware Acquisition, see Note 3, Acquisitions.

Also in December 2012, Spectrum Brands Escrow Corp. issued $520.0 aggregate principal amount of 6.375% Senior Notes due 2020 (the "6.375% Notes") and $570.0 aggregate principal amount of 6.625% Senior Notes due 2022 (the "6.625% Notes"). The 6.375% Notes and the 6.625% Notes were assumed by Spectrum Brands Inc., in connection with the Hardware Acquisition. Spectrum Brands used the net proceeds from the offering to fund a portion of the purchase price and related fees and expenses for the Hardware Acquisition. Spectrum Brands financed the remaining portion of the Hardware Acquisition with a new $800.0 term loan facility, of which $100.0 is in

Canadian dollar equivalents (the "Term Loan"). A portion of the Term Loan proceeds were also used to refinance the former term loan facility, maturing June 17, 2016, which had an aggregate amount outstanding of $370.2 prior to refinancing. Refer to Note 10, Debt, as well as Note 3, Acquisitions, in the accompanying Condensed Consolidated Financial Statements.

Lastly, in December 2012, FGL entered into a coinsurance agreement (the "Reinsurance Agreement") with Front Street Re (Cayman) Ltd. ("Front Street Cayman"), also an indirect subsidiary of the Company. Pursuant to the Reinsurance Agreement, Front Street Cayman will reinsure approximately 10%, or approximately $1,500.0 of FGL's policy liabilities, on a funds-withheld basis. In connection with the Reinsurance Agreement, Front Street Cayman, FGL and an indirect subsidiary of the Company, Five Island, also entered into an investment management agreement, pursuant to which Five Island will manage the assets securing Front Street Cayman's reinsurance obligations under the Reinsurance Agreement, which assets are held by FGL in a segregated account. The assets in the segregated account will be invested in accordance with FGL's existing guidelines.

In February 2013, HGI finalized a joint venture with EXCO to create a private oil and natural gas joint venture(the "EXCO/HGI JV"), through the Company's wholly-owned subsidiary HGI Energy. In connection with its formation, the EXCO/HGI JV entered into a credit agreement which had an initial borrowing base of $400.0, maturing on February 14, 2018 (the "EXCO/HGI JV Credit Agreement"). In March 2013, the EXCO/HGI JV acquired all of the shallow Cotton Valley assets from an affiliate of BG Group plc ("BG Group") for $130.9, funded with borrowings from the EXCO/HGI JV Credit Agreement.

Also in February 2013, Salus announced the closing of Salus CLO 2012-1, Ltd., a collateralized loan obligation ("CLO") vehicle providing for the issuance of up to $250.0 in collateralized obligations, initially funded with $175.5 of the asset-backed loans that Salus had originated through that date. Refer to Note 6, Securitizations and Variable Interest Entities, in the accompanying Condensed Consolidated Financial Statements.

In March 2013, FGL issued $300.0 aggregate principal amount of its 6.375% senior notes due April 1, 2021, at par value. FGL used a portion of the net proceeds from the issuance to pay a dividend to HGI and expects to use the remainder for general corporate purposes, to support the growth of its subsidiary life insurance company. Refer to Note 10, Debt, in the accompanying Condensed Consolidated Financial Statements.

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

The Company's reportable business segments are organized in a manner that reflects how HGI's management views those business activities. Accordingly, the Company currently operates its business in four reporting segments: (i) Consumer Products, (ii) Insurance, (iii) Energy, and (iv) Financial Services. For the results of operations by segment, and other segment data, see Note 19, Segment Data.

(2) Basis of Presentation, Significant Accounting Policies and Practices and Recent Accounting Pronouncements

Basis of Presentation

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

Principles of Consolidation

The Condensed Consolidated Financial Statements include the accounts of the Company, its majority-owned subsidiaries, those variable interest entities ("VIEs") where the Company is the primary beneficiary, and its proportionate share of the gross net assets of equity method investments in extractive industries ("Proportionate consolidation"). Intercompany accounts and transactions have been eliminated. Results of operations of acquired companies are included from the dates of acquisition and for VIEs, from the dates that the Company became the primary beneficiary.

The Company has elected to account for its investments in extractive industries that it does not control, but over which it can exert significant influence (specifically, the EXCO/HGI JV), by using the proportionate consolidation method allowed for equity-method investments in extractive industries, under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 932, *Extractive Industries.* Under this method, the Company consolidates its proportionate share of the assets and liabilities of the equity method investment, using a gross presentation.

A variable interest entity is an entity that lacks equity investors or whose equity investors do not have a controlling financial interest in the entity through their equity investments. The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and consolidates the VIE. A corporation is deemed to have a controlling financial interest and is the primary beneficiary of a VIE if it has both the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

The Company, through its subsidiary, Salus, primarily uses VIEs for its securitization activities, in which Salus transfers whole loans into a trust or other vehicle such that the assets are legally isolated from the creditors of Salus. Assets held in a trust can only be used to settle obligations of the trust. The creditors of these trusts typically have no recourse to Salus except in accordance with the obligations under standard representations and warranties. When Salus is the servicer of whole loans held in a securitization trust, Salus has the power to direct the most significant activities of the trust. Salus consolidates a whole-loan securitization trust if it has the power to direct the most significant activities and also holds securities issued by the trust or has other contractual arrangements, other than standard representations and warranties, that could potentially be significant to the trust.

Oil and natural gas properties

Full Cost Method

The accounting for, and disclosure of, oil and natural gas producing activities require that the EXCO/HGI JV choose between two GAAP alternatives; the full cost method or the successful efforts method. The EXCO/HGI JV chose to use the full cost method of accounting, which involves capitalizing all intangible drilling costs, lease and well equipment and exploration and development costs incurred plus acquired proved and unproved leaseholds. Once the EXCO/HGI JV incurs costs, they are recorded in the depletable pool of proved properties or in unproved properties, collectively, the full cost pool. The EXCO/HGI JV's unproved property costs, which include unproved oil and natural gas properties, properties under development, and major development projects, collectively totaled $49.8 and $48.5 as of June 30, 2013 and February 14, 2013, respectively, and are not subject to depletion. The EXCO/HGI JV reviews its unproved oil and natural gas property costs on a quarterly basis to assess for impairment and transfer unproved costs to proved properties as a result of extensions or discoveries from drilling operations or determine that no proved reserves are attributable to such costs. The EXCO/HGI JV expects these costs to be evaluated over approximately four years and transferred to the depletable portion of the full cost pool during that time. The EXCO/HGI JV has not recorded any impairments of undeveloped properties for the period from inception to June 30, 2013.

Capitalization of Interest

When the EXCO/HGI JV acquires significant amounts of undeveloped acreage, it capitalizes interest on the acquisition costs in accordance with FASB ASC Subtopic 835-20, *Capitalization of Interest*. When the unproved property costs are moved to proved developed and undeveloped oil and natural gas properties, or the properties are sold, the EXCO/HGI JV will cease capitalizing interest related to those properties.

Depletion

The EXCO/HGI JV calculates depletion using the unit-of-production method. Under this method, the sum of the full cost pool, excluding the book value of unproved properties, and all estimated future development costs are divided by the total estimated quantities of proved reserves. This rate is applied to the EXCO/HGI JV's total production for the quarter, and the appropriate expense is recorded. The EXCO/HGI JV capitalizes the portion of general and administrative costs, including share-based compensation, that is attributable to its exploration, exploitation and development activities.

Sales, dispositions and other oil and natural gas property retirements are accounted for as adjustments to the full cost pool, with no recognition of gain or loss, unless the disposition would significantly alter the amortization rate and/or the relationship between capitalized costs and Proved Reserves.

Ceiling Test Exemption

Pursuant to Rule 4-10(c)(4) of Regulation S-X, the EXCO/HGI JV was required to compute its ceiling test using the simple average spot price for the trailing twelve month period for oil and natural gas as of June 30, 2013. The computation resulted in the carrying costs of the EXCO/HGI JV's unamortized proved oil and natural gas properties exceeding the June 30, 2013 ceiling test limitation by approximately $211.2. As a result of a temporary exemption received from the SEC to exclude the acquisition of the EXCO/HGI JV's conventional oil and natural gas properties from the ceiling test, the need to recognize impairment for the quarter ended June 30, 2013 was eliminated.

The EXCO/HGI JV's pricing for these acquisitions are based on models which incorporate, among other things, market prices based on New York Mercantile Exchange ("NYMEX") futures. The ceiling test requires companies using the full cost accounting method to price period ending proved reserves using the simple average spot price for the trailing twelve month period, which may not be indicative of actual market values. Given the short passage of time between closing of these acquisitions and the required ceiling test computation, HGI requested, and received, an exemption from the SEC to exclude the acquisition of these oil and natural gas properties from the ceiling test assessments for a period of twelve months following the corresponding acquisition dates.

The request for exemption was made because the EXCO/HGI JV believes the fair value of the aforementioned acquisitions can be demonstrated beyond a reasonable doubt to exceed their unamortized costs. The EXCO/HGI JV's expectation of future prices is principally based on NYMEX futures contracts, adjusted for basis differentials, for a period of five years. After a five year period the EXCO/HGI JV has elected to use flat pricing as the NYMEX futures contracts become more thinly traded. Generally, the flat price used for the sixth year through the economic life of the property is management's internal long-term price estimate, which is, in part, based on an extension of

the NYMEX pricing. The EXCO/HGI JV believes the NYMEX futures contracts reflect an independent proxy for fair value. Management's internal valuation model demonstrated that the fair value of these acquired oil and natural gas properties clearly exceeded the calculated ceiling test limitation as of June 30, 2013 beyond a reasonable doubt.

The EXCO/HGI JV recognizes that, due to the volatility associated with oil and natural gas prices, a downward trend in market prices could occur. If such a case were to occur and is deemed to be other than a temporary trend, the EXCO/HGI JV would assess these acquisitions for impairment during the requested exemption period. Further, if the EXCO/HGI JV cannot demonstrate that fair value exceeds the calculated ceiling test limitation during the requested exemption periods prior to issuance of its financial statements, the EXCO/HGI JV will recognize impairment related to these acquisitions.

The ceiling test calculation is based upon estimates of proved reserves. There are numerous uncertainties inherent in estimating quantities of proved reserves, in projecting the future rates of production and in the timing of development activities. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, testing and production subsequent to the date of the estimate may justify revision of such estimate. Accordingly, reserve estimates are often different from the quantities of oil and natural gas that are ultimately recovered.

Gas gathering assets

Gas gathering assets are capitalized at cost and depreciated on a straight line basis over their estimated useful lives of up to 14 years.

Deferred abandonment and asset retirement obligations

The EXCO/HGI JV applies FASB ASC 410-20, *Asset Retirement and Environmental Obligations* ("ASC 410-20"), to account for estimated future plugging and abandonment costs. ASC 410-20 requires legal obligations associated with the retirement of long-lived assets to be recognized at their estimated fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost is capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. The EXCO/HGI JV's asset retirement obligations primarily represent the present value of the estimated amount it will incur to plug, abandon and remediate proved producing properties at the end of their productive lives, in accordance with applicable state laws.

The EXCO/HGI JV's asset retirement obligations are determined using discounted cash flow methodologies based on inputs that are not readily available in public markets. The EXCO/HGI JV has no assets that are legally restricted for purposes of settling asset retirement obligations.

Revenue recognition and gas imbalances

The EXCO/HGI JV uses the sales method of accounting for oil and natural gas revenues. Under the sales method, revenues are recognized based on actual volumes of oil and natural gas sold to purchasers. Gas imbalances at June 30, 2013 were not significant.

Gathering and transportation

The EXCO/HGI JV generally sells oil and natural gas under two types of agreements which are common in the industry. Both types of agreements include a transportation charge. One is a net-back arrangement, under which the EXCO/HGI JV sells oil or natural gas at the wellhead and collects a price, net of the transportation incurred by the purchaser. In this case, The EXCO/HGI JV records sales at the price received from the purchaser, net of the transportation costs. Under the other arrangement, the EXCO/HGI JV sells oil or natural gas at a specific delivery point, pays transportation to a third party and receives proceeds from the purchaser with no transportation deduction. In this case, the EXCO/HGI JV records the transportation cost as gathering and transportation expense. Due to these two distinct selling arrangements, The EXCO/HGI JV's computed realized prices, before the impact of derivative financial instruments, includes revenues which are reported under two separate bases.

Overhead reimbursement fees

The EXCO/HGI JV has classified fees from overhead charges billed to working interest owners, including itself, as a reduction of general and administrative expenses in the accompanying Condensed Consolidated Statements of Operations. The EXCO/HGI JV's share of these charges was $1.8 for the three months ended June 30, 2013,

and $2.4 from inception to the period ended June 30, 2013 and was classified as oil and natural gas production costs.

Environmental costs

Environmental costs that relate to current operations are expensed as incurred. Remediation costs that relate to an existing condition caused by past operations are accrued when it is probable that those costs will be incurred and can be reasonably estimated based upon evaluations of currently available facts related to each site.

Change in Accounting Method

During the quarter ended June 30, 2013, the Company changed its method of presenting tax withholdings for share-based payment awards paid to a taxing authority on behalf of an employee from an operating activity to a financing activity within its statements of cash flows. The Company believes that the newly adopted accounting principle is preferable in the circumstances because the predominant characteristic of such transaction is a financing activity.

As a result of the change in accounting method, the Company had the following reclassifications for the nine months ended June 30, 2013 and July 1, 2012, respectively:

	Nine months ended	
	June 30, 2013	July 1, 2012
Net change in cash due to operating activities	$ 20.2	$ 3.9
Net change in cash due to financing activities	$ (20.2)	$ (3.9)

Recent Accounting Pronouncements

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' 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. The guidance requiring disclosure of the income statement location where gains and losses reclassified out of comprehensive income are included was deferred in December 2011. In November 2012, the FASB clarified its position on the reclassification disclosures, allowing disclosure of reclassification adjustments on the face of the comprehensive income statement or in the notes to the financial statements. The accounting guidance requiring a comprehensive income statement is now effective for the Company. The Company has implemented all required disclosures.

Offsetting Assets and Liabilities

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

(3) Acquisitions

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

On December 17, 2012, Spectrum Brands completed the cash acquisition of the HHI Business from Stanley Black & Decker. A portion of the HHI Business, consisting of the purchase of certain assets of TLM Taiwan closed on April 8, 2013.

The following table summarizes the preliminary consideration paid for the HHI Business:

Negotiated sales price, excluding TLM Taiwan	$	1,300.0
Working capital and other adjustments at December 17, 2012 close		(10.7)
Final working capital adjustment		(7.7)
Final purchase price, excluding TLM Taiwan		1,281.6
Negotiated sales price, TLM Taiwan		100.0
Working capital and other adjustments at April 8, 2013 close		(6.5)
Total HHI Business purchase price	$	1,375.1

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

The results of HHI Business operations since December 17, 2012, excluding TLM Taiwan, are included in the Company's Condensed Consolidated Statements of Operations. The results of TLM Taiwan operations since April 8, 2013 are included in the Company's Condensed Consolidated Statements of Operations.

Preliminary Valuation of Assets and Liabilities

The preliminary fair values of net tangible and intangible assets acquired and liabilities assumed in connection with the purchase of the HHI Business, excluding TLM Taiwan, have been recognized in the Condensed Consolidated Balance Sheets based upon their preliminary values at December 17, 2012. The preliminary fair values of the net tangible and intangible assets acquired and liabilities assumed in connection with the TLM Taiwan purchase have been recognized in the Condensed Consolidated Balance Sheets based upon their preliminary values at April 8, 2013. The excess of the purchase price over the preliminary fair values of the net tangible and intangible assets was recorded as goodwill, and includes value associated with greater product diversity, stronger relationships with core retail partners, cross-selling opportunities in all channels and a new platform for potential future global growth using the Spectrum Brands' existing international infrastructure, most notably in Europe. The majority of goodwill recorded is not expected to be deductible for income tax purposes. The preliminary fair values recorded were based upon a preliminary valuation and the estimates and assumptions used in such valuation are subject to change, which could be significant, within the measurement period (up to one year from the acquisition date). The primary areas of the preliminary valuation that are not yet finalized relate to the fair values of certain tangible assets and liabilities acquired, certain legal matters, amounts for income taxes including deferred tax accounts, amounts for uncertain tax positions, and net operating loss carryforwards inclusive of associated limitations and valuation allowance, the determination of identifiable intangible assets and the final amount of residual goodwill. Additionally, finalized fair values associated with deferred tax accounts could have a material effect on Spectrum Brands' estimated reversal of its consolidated U.S. valuation allowances recognized during the measurement period. See Note 14, Income Taxes, for further information. Spectrum Brands expects to continue to obtain information to assist it in determining the fair values of the net assets acquired at the acquisition date during the measurement period.

The preliminary valuation of the assets acquired and liabilities assumed for the HHI Business, including a reconciliation to the preliminary valuation reported as of December 30, 2012, is as follows:

	HHI Business Preliminary Valuation	TLM Taiwan Preliminary Valuation		Preliminary Valuation
	December 30, 2012	June 30, 2013	Adjustments/reclassifications	June 30, 2013
Cash	$ 17.4	$ 0.8	$ 5.8	$ 24.0
Accounts receivable	104.6	—	4.4	109.0
Inventory	207.2	1.1	(2.4)	205.9
Prepaid expenses and other	13.3	2.1	(4.2)	11.2
Property, plant and equipment	104.5	36.8	(5.1)	136.2
Intangible assets	470.0	17.1	—	487.1
Other long-term assets	3.1	0.1	—	3.2
Total assets acquired	920.1	58.0	(1.5)	976.6
Accounts payable	130.1	—	8.0	138.1
Deferred tax liability - current	7.1	—	—	7.1
Accrued liabilities	37.5	0.2	0.1	37.8
Deferred tax liability - long-term	104.7	1.9	11.2	117.8
Other long-term liabilities	11.2	8.1	(2.2)	17.1
Total liabilities assumed	290.6	10.2	17.1	317.9
Total identifiable net assets	629.5	47.8	(18.6)	658.7
Non-controlling interests	(2.2)	—	(2.2)	(4.4)
Goodwill	662.1	45.6	13.1	720.8
Total net assets acquired	$ 1,289.4	$ 93.4	$ (7.7)	$ 1,375.1

Since the preliminary valuation on December 30, 2012, Spectrum Brands recorded $45.6 of goodwill related to the acquisition of TLM Taiwan on April 8, 2013, and recorded adjustments to the preliminary valuation of assets and liabilities, excluding TLM Taiwan, resulting in a net increase to goodwill of $13.1. The preliminary goodwill increased $11.2 as a result of recording certain state and foreign valuation allowances against deferred tax assets, a decrease of $5.1 resulting from a reduction in certain property, plant and equipment asset values and a $2.4 decrease from a reduction in inventory asset values. The changes in estimates were the result of additional accounting information provided by Stanley Black & Decker during the period. Spectrum Brands believes that the information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but it is waiting for additional information necessary to finalize those fair values. Thus, the provisional measurements of fair value set forth above are subject to change further. Spectrum Brands expects to complete the purchase accounting process as soon as practicable but no later than one year from the acquisition date.

Preliminary Pre-Acquisition Contingencies Assumed

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

Preliminary Valuation Adjustments

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

- *Inventories* - An adjustment of $31.0 was recorded to adjust inventory to fair value. Finished goods were valued at estimated selling prices less the sum of costs of disposal and a reasonable profit allowance for the selling effort.
- *Property, plant and equipment, net* - An adjustment of $4.0 was recorded to adjust the net book value of property, plant and equipment to fair value giving consideration to the highest and best use of the assets. The valuation of the property, plant and equipment was based on the cost approach.
- Certain indefinite-lived intangible assets were valued using a relief from royalty methodology. Customer relationships and certain definite-lived intangible assets were valued using a multi-period excess earnings method. The total fair value of indefinite and definite lived intangibles was $487.1. 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 relationships, the multi-period excess earnings approach values the intangible asset at the present value of the incremental after-tax cash flows attributable only to the customer relationship after deducting contributory asset charges. The incremental after-tax cash flows attributable to the subject intangible asset are then discounted to their present value. Only expected sales from current customers were used, which included an expected growth rate of 3%. Spectrum Brands assumed a customer retention rate of approximately 95%, which was supported by historical retention rates. Income taxes were estimated at 17% - 35% and amounts were discounted using a rate of 12%. The customer relationships were valued at $90.0 under this approach and will be amortized over 20 years.
  - Spectrum Brands valued indefinite lived trade names and trademarks using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade name was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of the HHI Business, related trademarks and trade names, other similar trademark licensing and transaction agreements and the relative profitability and perceived contribution of the trademarks and trade names. Royalty rates used in the determination of the fair values of trade names and trademarks ranged from 3.0% - 5.0% of expected net sales related to the respective trade names and trademarks. Spectrum Brands anticipates using the majority of the trade names and trademarks for an indefinite period as demonstrated by the sustained use of each subject trademark. In estimating the fair value of the trademarks and trade names, net sales for significant trade names and trademarks were estimated to grow at a rate of 2.5% - 5.0% annually with a terminal year growth rate of 2.5%. Income taxes were estimated at 35.0% and amounts were discounted using a rate of 12.0%. Trade name and trademarks were valued at $330.0 under this approach.
  - Spectrum Brands valued a definite lived trade name using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade name was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of the HHI Business, related trademarks and trade names, other similar trademark licensing and transaction agreements and the relative profitability and perceived contribution of the trademarks and trade names. The royalty rate used in the determination of the fair values of trade name was 3.5% of expected net sales related to the respective trade name. Spectrum Brands assumed an 8 year useful life of the trade name. In estimating the fair value of the trade name, net sales for the trade name were estimated to grow at a rate of 2.5% - 5.0% annually. Income taxes were estimated at 17% - 35.0% and amounts were discounted using a rate of 12.0%. The trade name was valued at $4.1 under this approach.
  - Spectrum Brands valued a trade name license agreement using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade name was not owned. Royalty rates were selected based on consideration of several factors, including prior

transactions of the HHI Business, related trademarks and trade names, other similar trademark licensing and transaction agreements and the relative profitability and perceived contribution of the trademarks and trade names. The royalty rate used in the determination of the fair value of the trade name license agreement was 4.0% of expected net sales related to the respective trade name. In estimating the fair value of the trade name license agreement, net sales were estimated to grow at a rate of 2.5% - 5.0% annually. Spectrum Brands assumed a 5 year useful life of the trade name license agreement. Income taxes were estimated at 35.0% and amounts were discounted using a rate of 12.0%. The trade name license agreement was valued at $12.0 under this approach.

- Spectrum Brands valued technology using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the technology was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of the HHI Business, related licensing agreements and the importance of the technology and profit levels, among other considerations. Royalty rates used in the determination of the fair values of technologies ranged from 4.0% - 5.0% of expected net sales related to the respective technology. Spectrum Brands anticipates using these technologies through the legal life of the underlying patent and therefore the expected life of these technologies was equal to the remaining legal life of the underlying patents which was 10 years. In estimating the fair value of the technologies, net sales were estimated to grow at a rate of 2.5% - 31.0% annually. Income taxes were estimated at 35.0% and amounts were discounted using the rate of 12.0%. The technology assets were valued at $51.0 under this approach.
- *Deferred tax liabilities, net* - An adjustment of $125.0 was recorded to adjust deferred taxes for the preliminary fair value adjustments made in accounting for the purchase.

Shaser

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

The following table summarizes the preliminary consideration paid for Shaser:

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

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

Spectrum Brands paid approximately half of the negotiated sales price to the seller at closing. The remaining purchase consideration was paid on April 2, 2013.

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

Preliminary Valuation of Assets and Liabilities

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

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

	Preliminary Valuation		Preliminary Valuation
	December 30, 2012	Adjustments/reclassifications	June 30, 2013
Cash	$ 0.9	$ —	$ 0.9
Intangible asset	35.5	(2.7)	32.8
Other assets	2.7	—	2.7
Total assets acquired	39.1	(2.7)	36.4
Total liabilities assumed	14.4	(1.0)	13.4
Total identifiable net assets	24.7	(1.7)	23.0
Non-controlling interest	(39.0)	—	(39.0)
Goodwill	63.9	1.7	65.6
Total identifiable net assets	$ 49.6	$ —	$ 49.6

During the nine month period ended June 30, 2013, Spectrum Brands recorded adjustments to the preliminary valuation of assets and liabilities resulting in a net increase to goodwill of $1.7. Goodwill increased as a result further information received to support a key valuation factor that impacted the valuation of the technology asset acquired. This revised information was provided by Shaser during the period. Spectrum Brands believes that information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but it is waiting for additional information necessary to finalize those fair values. Thus, the provisional measurements of fair value set forth above are subject to further change. Spectrum Brands expects to complete the purchase accounting process as soon as practicable but in any event, no later than one year from the acquisition date.

Preliminary Pre-Acquisition Contingencies Assumed

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

Preliminary Valuation Adjustments

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

- Spectrum Brands valued the technology assets using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the technology was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of Shaser, related licensing

agreements and the importance of the technology and profit levels, among other considerations. The royalty rate used in the determination of the fair value of the technology asset was 10.5% of expected net sales related to the technology. Spectrum Brands anticipates using the technology through the legal life of the underlying patent and therefore the expected life of the technology was equal to the remaining legal life of the underlying patent which was 13 years. In estimating the fair value of the technology, net sales were estimated to grow at a long-term rate of 3.0% annually. Income taxes were estimated at 35.0% and amounts were discounted using the rate of 11.0%. The technology asset was valued at approximately $32.8 under this approach.

- Spectrum Brands valued the non-controlling interest in Shaser, a private company, by applying both income and market approaches. Under these methods, the non-controlling value was determined by using a discounted cash flow method, a guideline companies method, and a recent transaction approach. In estimating the fair value of the non-controlling interest, key assumptions include (i) cash flow projections based on market participant data and estimates by Spectrum Brands management, with net sales estimated to grow at a terminal growth rate of 3.0% annually, income taxes estimated at 35.0%, and amounts discounted using a rate of 12.0%, (ii) financial multiples of companies deemed to be similar to Shaser, and (iii) adjustments because of lack of control or lack of marketability that market participants would consider when estimating the fair value of the non-controlling interest in Shaser. The non-controlling interest was valued at $39.0 under this approach.
- Spectrum Brands, in connection with valuing the non-controlling interest in Shaser, also valued the Call Option. In addition to the valuation methods and key assumptions discussed above, Spectrum Brands compared the forecasted revenue and EBITDA multiples, as defined, associated with the Call Option to current guideline companies. The Call Option was determined to have an immaterial value under this approach.

EXCO/HGI JV

The EXCO/HGI JV was formed on February 14, 2013 through transactions between subsidiaries of EXCO and HGI, resulting in the formation of the General Partner and the Partnership. Under the terms of the respective agreements, the EXCO/HGI JV acquired certain oil and natural gas assets from EXCO for $725.0 of total consideration, subject to certain customary closing adjustments of $30.5, or a net purchase price of $694.5. Immediately after the closing and the consummation of the transactions, the ownership in the Partnership was 73.5% by HGI and 24.5% by EXCO and 2% by the General Partner. In addition, HGI and EXCO each own a 50% member interest in the General Partner and each have equal representation on the General Partner's board of directors. The ownership of the Partnership and General Partnership translates into an economic ownership of the EXCO/HGI JV of 74.5%. At the closing, HGI contributed approximately $349.8 in cash (reflecting the effect of closing adjustments and the economic benefits related to the July 1, 2012 effective date) to the EXCO/HGI JV and EXCO contributed $694.5 of net assets in exchange for cash of $574.8, and retained an interest in the joint venture of $119.1. The payment to EXCO was funded through a combination of cash from HGI's contribution, and borrowings under the EXCO/HGI JV Credit Agreement.

On March 5, 2013, the EXCO/HGI JV acquired certain of the shallow Cotton Valley assets from an affiliate of BG Group for $130.9, after customary preliminary purchase price adjustments. This acquisition includes oil and natural gas assets in the Danville, Waskom and Holly fields in East Texas and North Louisiana. The assets acquired by the EXCO/HGI JV represented an incremental working interest in certain properties previously owned by the EXCO/HGI JV. The acquisition was funded with borrowings from the EXCO/HGI JV Credit Agreement.

The EXCO/HGI JV accounted for the acquisitions in accordance with ASC 805-10, *Business Combinations*. The following table presents a summary of the fair value of assets acquired and liabilities assumed as part of the acquisition:

	EXCO's Contributed Assets February 14, 2013		BG Cotton Valley Assets March 5, 2013	
	EXCO/HGI JV	HGI's Proportionate Interest	EXCO/HGI JV	HGI's Proportionate Interest
Assets acquired:				
Cash	$ 0.1	$ 0.1	$ —	$ —
Oil and natural gas properties				
Unproved oil and natural gas properties	65.1	48.5	7.2	5.4
Proved developed and undeveloped oil and natural gas properties	632.2	471.0	131.2	97.7
Total oil and natural gas properties	697.3	519.5	138.4	103.1
Gas Gathering and other assets	32.7	24.5	—	—
Liabilities assumed:				
Accounts payable and other current liabilities	(10.8)	(8.0)	—	—
Other liabilities	(24.8)	(18.5)	(7.5)	(5.6)
Total purchase price	$ 694.5	$ 517.6	$ 130.9	$ 97.5

The EXCO/HGI JV performed a valuation of the assets acquired and liabilities assumed at February 14 and March 5, 2013. A summary of the key inputs are as follows:

Oil and Natural Gas Properties - HGI's proportionate share of the fair value allocated to oil and natural gas properties was $519.5 and $103.1, for the EXCO/HGI JV and the BG Cotton Valley acquisitions, respectively. The fair value of oil and natural gas properties was determined based on a discounted cash flow model of the estimated reserves. The estimated quantities of reserves utilized assumptions based on the partnership's internal geological, engineering data and financial data. The EXCO/HGI JV utilized NYMEX forward strip prices to value the reserves for a period of five years and then held prices flat thereafter. The EXCO/HGI JV then applied various discount rates depending on the classification of reserves and other risk characteristics.

Gas Gathering Assets - HGI's proportionate share of the fair value allocated to gas gathering assets was $21.5. The fair value of these assets was determined based on a market approach using other recent transactions involving gathering and processing assets. The EBITDA multiple based on these market transactions was applied to the projected EBITDA of the gas gathering assets in order to calculate the fair value.

Asset Retirement Obligations - HGI's proportionate share of the fair value allocated to asset retirement obligations was $18.5 and $5.6, respectively. These asset retirement obligations represent the present value of the estimated amount to be incurred to plug, abandon and remediate proved producing properties at the end of their productive lives, in accordance with applicable state laws. The fair value was determined based on a discounted cash flow model, which included assumptions of the estimated current abandonment costs, discount rate, inflation rate, and timing associated with the incurrence of these costs. The asset retirement obligations are primarily included in "Other liabilities" in the Condensed Consolidated Balance Sheets.

FGL Acquisition Update

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

Contingent Purchase Price Reduction

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

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

Prior to the receipt of the written rejection notice from the MIA, management believed, based on the facts and circumstances at that time, that the likelihood was remote that the purchase price would be required to be reduced. Therefore a fair value of zero had been assigned to the contingent purchase price reduction as of the FGL Acquisition date and at each subsequent quarterly remeasurement date through January 1, 2012. Management now believes that it is near certain that the purchase price will be required to be reduced by the full $50.0 amount and has estimated a fair value of $41.0 for the contingent receivable as of June 30, 2013 (essentially unchanged from September 30, 2012 and July 1, 2012), reflecting appropriate discounts for potential litigation and regulatory action, length of time until expected payment is received and a credit insurance risk premium. Such $41.0 estimated fair value of the contingent receivable has been reflected in "Receivables, net" in the Condensed Consolidated Balance Sheets as of June 30, 2013. A corresponding credit to "Gain on contingent purchase price reduction" was recorded in earnings during Fiscal 2012.

Supplemental Pro Forma Information

The following table reflects the Company's pro forma results as if the Hardware Acquisition and the acquisition of the Company's interest in the EXCO/HGI JV were completed on October 1, 2011 and the results of the HHI Business and the EXCO/HGI JV had been included in the full three and nine months ended June 30, 2013 and July 1, 2012.

	Three months ended		Nine months ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Revenues:				
Reported revenues	$ 1,410.6	$ 1,012.2	$ 4,044.8	$ 3,283.9
HHI adjustment	—	253.0	191.8	716.9
EXCO/HGI JV adjustment	—	32.1	53.7	114.8
Pro forma revenues	$ 1,410.6	$ 1,297.3	$ 4,290.3	$ 4,115.6
Net income:				
Reported net income	$ 118.7	$ (110.1)	$ 136.3	$ (64.8)
HHI adjustment	—	26.7	4.9	49.6
EXCO/HGI JV adjustment	—	(5.5)	(0.5)	(5.2)
Pro forma net income	$ 118.7	$ (88.9)	$ 140.7	$ (20.4)
Basic net income (loss) per common share attributable to controlling interest:				
Reported net income (loss) per common share	$ 0.45	$ (1.07)	$ 0.54	$ (0.93)
HHI adjustment	—	0.19	0.04	0.36
EXCO/HGI JV adjustment	—	(0.04)	—	(0.04)
Pro forma net income (loss) per common share	$ 0.45	$ (0.92)	$ 0.58	$ (0.61)
Diluted net income (loss) per common share attributable to controlling interest:				
Reported diluted net income (loss) per common share	$ 0.25	$ (1.07)	$ 0.30	$ (0.93)
HHI adjustment	—	0.19	0.02	0.36
EXCO/HGI JV adjustment	—	(0.04)	—	(0.04)
Pro forma diluted net income (loss) per common share	$ 0.25	$ (0.92)	$ 0.32	$ (0.61)

Acquisition and Integration Related Charges

Acquisition and integration related charges reflected in "Selling, acquisition, operating and general expenses" in the accompanying Condensed Consolidated Statements of Operations include, but are not limited to transaction costs such as banking, legal and accounting professional fees directly related to an acquisition or potential acquisition, termination and related costs for transitional and certain other employees, integration related professional fees and other post business combination related expenses. Such charges for the three and nine months ended June 30, 2013 relate primarily to the Hardware Acquisition and the EXCO/HGI JV acquisition, and for the three and nine months ended July 1, 2012 relate primarily to the Spectrum Brands merger with Russell Hobbs, Inc. (the "SB/RH Merger") and the acquisition of FURminator.

The following table summarizes acquisition and integration related charges incurred by the Company for the three and nine months ended June 30, 2013 and July 1, 2012:

	Three months ended		Nine months ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
SB/RH Merger				
Integration costs	$ 0.7	$ 1.6	$ 2.6	$ 6.8
Employee termination charges	(0.1)	0.8	0.2	3.3
Legal and professional fees	(0.1)	0.6	—	1.5
	0.5	3.0	2.8	11.6
HHI Business				
Legal and professional fees	4.7	—	25.7	—
Integration costs	1.6	—	5.3	—
Employee termination charges	—	—	0.1	—
	6.3	—	31.1	—
EXCO/HGI JV	0.1	—	9.2	—
FURminator	0.4	1.7	1.6	6.3
BlackFlag	0.1	0.1	0.1	1.9
Shaser	0.1	—	4.5	—
Other	1.1	0.7	3.2	3.1
Total acquisition and integration related charges	$ 8.6	$ 5.5	$ 52.5	$ 22.9

Table of Contents

(4) Investments

HGI’s investments consist of (1) marketable equity securities classified as trading and carried at fair value with unrealized gains and losses recognized in earnings, including certain securities for which the Company has elected the fair value option under Accounting Standards Codification ("ASC") Topic 825, *Financial Instruments*, which would otherwise have been classified as available-for-sale; (2) U.S. Treasury securities and a certificate of deposit classified as held-to-maturity and carried at amortized cost, which approximates fair value; (3) FGL’s debt and equity securities have been designated as available-for-sale and are carried at fair value with unrealized gains and losses included in AOCI, net of associated adjustments for value of business acquired ("VOBA"), deferred acquisition costs ("DAC") and deferred income taxes; and (4) asset-backed loan receivables originated by Salus, which are carried at the principal amount outstanding, adjusted for an allowance for credit losses. The Company’s consolidated investments are summarized as follows:

	June 30, 2013				
	Cost or Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Carrying Value**
Fixed-maturity securities, available-for sale					
Asset-backed securities	$ 1,416.2	$ 25.9	$ (4.6)	$ 1,437.5	$ 1,437.5
Commercial mortgage-backed securities	496.5	28.1	(0.7)	523.9	523.9
Corporates	10,008.8	367.5	(163.5)	10,212.8	10,212.8
Hybrids	483.6	27.8	(3.1)	508.3	508.3
Municipals	1,005.2	59.1	(27.4)	1,036.9	1,036.9
Agency residential mortgage-backed securities	108.7	2.7	(0.4)	111.0	111.0
Non-agency residential mortgage-backed securities	1,274.8	88.4	(9.3)	1,353.9	1,353.9
U.S. Government	391.5	6.4	(3.9)	394.0	394.0
Total fixed maturities	15,185.3	605.9	(212.9)	15,578.3	15,578.3
Equity securities					
Available-for-sale	265.2	9.2	(4.6)	269.8	269.8
Held for trading	110.2	1.6	(44.6)	67.2	67.2
Total equity securities	375.4	10.8	(49.2)	337.0	337.0
Derivatives	140.6	95.3	(8.5)	227.4	227.4
Asset-backed loans	430.2	—	—	430.2	430.2
Other invested assets					
Policy loans and other invested assets	27.6	—	—	27.6	27.6
Total investments	$ 16,159.1	$ 712.0	$ (270.6)	$ 16,600.5	$ 16,600.5

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

Included in AOCI were unrealized gains of $0.9 and unrealized losses of $1.9 related to the non-credit portion of other-than-temporary impairments on non-agency residential mortgage-backed securities at both June 30, 2013 and September 30, 2012, respectively. The structured security write downs represent additional write downs on securities that were previously impaired. There have been no impairments or write downs on any of the recently purchased non-agency residential mortgage-backed securities.

Securities held on deposit with various state regulatory authorities had a fair value of $19.6 and $20.7 at June 30, 2013 and September 30, 2012, respectively.

Maturities of Fixed-maturity Securities

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

	June 30, 2013	
	Amortized Cost	Fair Value
Corporates, Non-structured Hybrids, Municipal and U.S. Government securities:		
Due in one year or less	$ 394.5	$ 398.0
Due after one year through five years	2,720.5	2,783.6
Due after five years through ten years	3,468.3	3,528.8
Due after ten years	5,246.5	5,379.5
Subtotal	11,829.8	12,089.9
Other securities which provide for periodic payments:		
Asset-backed securities	1,416.2	1,437.5
Commercial-mortgage-backed securities	496.5	523.9
Structured hybrids	59.3	62.1
Agency residential mortgage-backed securities	108.7	111.0
Non-agency residential mortgage-backed securities	1,274.8	1,353.9
Total fixed maturity available-for-sale securities	$ 15,185.3	$ 15,578.3

Securities in an Unrealized Loss Position

FGL's available-for-sale securities with unrealized losses are reviewed for potential other-than-temporary impairments. In evaluating whether a decline in value is other-than-temporary, FGL considers several factors including, but not limited to the following: (1) the extent and the duration of the decline; (2) the reasons for the decline in value (credit event, currency or interest-rate related, including general credit spread widening); and (3) the financial condition of and near-term prospects of the issuer. FGL also considers the ability and intent to hold the investment for a period of time to allow for a recovery of value.

FGL analyzes its ability to recover the amortized cost by comparing the net present value of cash flows expected to be collected with the amortized cost of the security. For mortgage-backed and asset-backed securities, cash flow estimates consider the payment terms of the underlying assets backing a particular security, including interest rate and prepayment assumptions, based on data from widely accepted third-party data sources or internal estimates. In addition to interest rate and prepayment assumptions, cash flow estimates also include other assumptions regarding the underlying collateral including default rates and recoveries, which vary based on the asset type and geographic location, as well as the vintage year of the security. For structured securities, the payment priority within the tranche structure is also considered. For all other debt securities, cash flow estimates are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. If the net present value is less than the amortized cost of the investment, an other-than-temporary impairment is recognized. FGL has concluded that the fair values of the securities presented in the table below were not other-than-temporarily impaired as of June 30, 2013.

The fair value and gross unrealized losses of available-for-sale securities, aggregated by investment category, were as follows:

	June 30, 2013					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	$ 300.6	$ (4.1)	$ 77.6	$ (0.5)	$ 378.2	$ (4.6)
Commercial-mortgage-backed securities	28.7	(0.3)	—	(0.4)	28.7	(0.7)
Corporates	3,133.5	(142.4)	396.0	(21.1)	3,529.5	(163.5)
Hybrids	75.4	(2.5)	40.7	(0.6)	116.1	(3.1)
Equities	90.9	(3.2)	33.9	(1.4)	124.8	(4.6)
Municipals	350.9	(21.4)	101.4	(6.0)	452.3	(27.4)
Agency residential mortgage-backed securities	2.5	—	6.3	(0.4)	8.8	(0.4)
Non-agency residential mortgage-backed securities	255.5	(8.0)	69.2	(1.3)	324.7	(9.3)
U.S. Government	198.9	(3.9)	—	—	198.9	(3.9)
Total available-for-sale securities	$ 4,436.9	$ (185.8)	$ 725.1	$ (31.7)	$ 5,162.0	$ (217.5)
Total number of available-for-sale securities in an unrealized loss position		537		106		643

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

At June 30, 2013 and September 30, 2012, securities in an unrealized loss position were primarily concentrated in investment grade corporate debt instruments, residential mortgage-backed securities and municipals. Total unrealized losses were $217.5 and $30.6 at June 30, 2013 and September 30, 2012, respectively. The increase in the unrealized loss position is largely due to the increase in Treasury yields over the reporting period. 10 year US Treasury yields increased from 1.63% at September 30, 2012 to 2.48% at June 30, 2013. As a result, corporate debt holdings generally declined in value during this period. The increase in Treasury yields during the June fiscal

quarter is attributable to concerns about the cessation of liquidity measures being provided by the Federal Reserve. These concerns were coupled with fears that reduced stimulus would crimp liquidity and affect risk assets, and as a result, credit spreads widened in June. Although elevated Treasury yields, and most recently, credit spreads have resulted in an increase in the unrealized loss position in the portfolio, FGL noted that the largest component of this increase is in securities priced between 90% and 100% of market value. Additionally, FGL noted that the portfolio's exposure to floating rate and less rate-sensitive assets has provided a buffer to rising Treasury yields.

At June 30, 2013 and September 30, 2012, securities with a fair value of $25.4 and $1.2, respectively, were depressed greater than 20% of amortized cost (excluding United States Government and United States Government sponsored agency securities), which represented less than 1% of the carrying values of all investments. The increase in unrealized loss positions from September 30, 2012 is primarily due to increases in Treasury yields during this period. Based upon FGL's current evaluation of these securities in accordance with its impairment policy and its intent to retain these investments for a period of time sufficient to allow for recovery in value, FGL has determined that these securities are not other-than-temporarily impaired.

Credit Loss Portion of Other-than-temporary Impairments

The following table provides a reconciliation of the beginning and ending balances of the credit loss portion of other-than-temporary impairments on fixed maturity securities held by FGL for the three and nine months ended June 30, 2013 and July 1, 2012, for which a portion of the other-than-temporary impairment was recognized in AOCI:

	Three months ended		Nine months ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Balance at the beginning of the period	$ 2.7	$ 2.6	$ 2.7	$ 0.7
Increases attributable to credit losses on securities:				
Other-than-temporary impairment was previously recognized	—	0.1	—	0.1
Other-than-temporary impairment was not previously recognized	—	—	—	1.9
Balance at the end of the period	$ 2.7	$ 2.7	$ 2.7	$ 2.7

For the three and nine months ended June 30, 2013, FGL recognized impairment losses in operations totaling $0.7 and $1.6, respectively, including credit impairments of $0.5 and $0.8 and change-of-intent impairments of $0.2 and $0.9 and had an amortized cost of $4.1 and a fair value of $2.4 at the time of impairment, respectively. For the three and nine months ended July 1, 2012, FGL recognized impairment losses in operations totaling $2.5 and $19.8, respectively, including credit impairments of $0.7 and $4.7, and change-of-intent impairments of $1.8 and $15.0 and had an amortized cost of $101.9 and a fair value of $80.6 at the time of impairment. Details underlying write-downs taken as a result of other-than-temporary impairments that were recognized in earnings and included in net realized gains on securities were as follows:

	Three months ended		Nine months ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Other-than-temporary impairments recognized in net income:				
Corporates	$ —	$ 1.5	$ —	$ 2.2
Non-agency residential mortgage-backed securities	0.2	0.8	1.1	6.9
Hybrids	—	—	—	9.7
Other invested assets	0.5	0.2	0.5	1.0
Total other-than-temporary impairments	$ 0.7	$ 2.5	$ 1.6	$ 19.8

Asset-backed Loans

"Asset-backed loans" in the Condensed Consolidated Balance Sheets as of June 30, 2013 and September 30, 2012, consisted of the following:

	June 30, 2013	September 30, 2012
Asset-backed loans, by major industry:		
Wholesale	$ 23.0	$ 77.2
Apparel	177.5	70.1
Jewelry	59.8	27.9
Other	173.0	6.3
Total asset-backed loans	433.3	181.5
Less: Allowance for credit losses	3.1	1.4
Total asset-backed loans, net	$ 430.2	$ 180.1

Allowance for credit losses are established through a provision for credit losses based on its evaluation of the credit quality of its loan portfolio. The following table presents the activity in its allowance for credit losses for the three and nine months ended June 30, 2013 and July 1, 2012:

	Three months ended		Nine months ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Allowance for credit losses:				
Balance at beginning of period	$ 2.8	$ 0.2	$ 1.4	$ —
Provision for credit losses	0.3	0.4	1.7	0.6
Charge-offs	—	—	—	—
Recoveries	—	—	—	—
Balance at end of period	$ 3.1	$ 0.6	$ 3.1	$ 0.6

The Company monitors credit quality as indicated by various factors and utilizes such information in its evaluation of the adequacy of the allowance for credit losses. As of June 30, 2013 and September 30, 2012, we had no outstanding loans that either were non-performing, in a non-accrual status, or had been subject to a troubled-debt restructuring. As of June 30, 2013 and September 30, 2012, there were no outstanding loans that had been individually considered impaired, as all loans were in current payment status.

Our Internal loan ratings provide information about the credit quality of its asset-based lending borrowers, and its risk of potential loss. The following tables present information about the credit quality of the asset-based loan portfolio, based on National Association of Insurance Commissioners ("NAIC") risk rating, as of June 30, 2013 and September 30, 2012:

NAIC Designation	Credit Equivalent Rating	June 30, 2013	Percent of Total	September 30, 2012	Percent of Total
1	AAA/AA/A	$ 19.8	4.6%	$ 75.8	41.7%
2	BBB	392.8	90.7%	94.9	52.3%
3	BB	—	—%	10.8	6.0%
4	B	—	—%	—	—%
5	CCC	20.7	4.7%	—	—%
Not rated		—	—%	—	—%
Total		$ 433.3	100.0%	$ 181.5	100.0%

Net Investment Income

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

	Three months ended		Nine months ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Fixed maturity available-for-sale securities	$ 173.8	$ 172.7	$ 507.3	$ 530.4
Equity available-for-sale securities	3.9	4.8	11.5	10.8
Policy loans	0.1	0.2	0.6	0.6
Invested cash and short-term investments	0.2	2.1	1.4	3.5
Other investments	15.2	2.3	29.4	2.9
Gross investment income	193.2	182.1	550.2	548.2
External investment expense	(3.6)	(2.9)	(10.5)	(9.2)
Net investment income	$ 189.6	$ 179.2	$ 539.7	$ 539.0

Net investment gains (losses)

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

	Three months ended		Nine months ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Net realized gains before other-than-temporary impairments	$ 34.7	$ 40.4	$ 280.2	$ 192.0
Gross other-than-temporary impairments	(0.7)	(2.4)	(1.6)	(21.3)
Non-credit portion of other-than-temporary impairments included in other comprehensive income	—	(0.1)	—	1.5
Net realized gains on fixed maturity available-for-sale securities	34.0	37.9	278.6	172.2
Realized gains on equity securities	4.5	0.4	6.4	0.8
Net realized gains on securities	38.5	38.3	285.0	173.0
Realized gains (losses) on certain derivative instruments	54.0	(26.3)	99.3	(32.0)
Unrealized gains on certain derivative instruments	(34.0)	(24.9)	27.3	114.6
Change in fair value of derivatives	20.0	(51.2)	126.6	82.6
Realized gains on other invested assets	(0.2)	—	(0.1)	(1.0)
Net investment gains (losses)	$ 58.3	$ (12.9)	$ 411.5	$ 254.6

For the three and nine months ended June 30, 2013, principal repayments, calls, tenders, and proceeds from the sale of fixed maturity available-for-sale securities totaled $836.0 and $5,741.6, gross gains on such sales totaled $35.0 and $284.0 and gross losses totaled $0.5 and $1.0, respectively. The proceeds from the sale of fixed maturity available-for sale securities exclude maturities and repayments for the three and nine months ended June 30, 2013.

For the three and nine months ended July 1, 2012, principal repayments, calls, tenders, and proceeds from the sale of fixed maturity available-for-sale securities, including assets transferred to Wilton Re as discussed in Note 12 totaled $1,216.2 and $4,366.3, gross gains on such sales totaled $49.5 and $211.9 and gross losses totaled $9.2 and $20.9, respectively. The proceeds from the sale of fixed maturity available-for sale securities exclude maturities and repayments for the three and nine months ended July 1, 2012.

Underlying write-downs taken to fixed maturity available-for-sale securities as a result of other-than-temporary impairments that were recognized in earnings and included in net realized gains on securities above were $0.7 and $1.6 for the three and nine months ended June 30, 2013, respectively and were $2.5 and $19.8 for the three and nine months ended July 1, 2012, respectively.

Cash flows from consolidated investing activities by security classification were as follows:

	Nine months ended	
	June 30, 2013	July 1, 2012
Proceeds from investments sold, matured or repaid:		
Available-for-sale	$ 7,052.1	$ 4,208.6
Held-to-maturity	—	75.7
Trading (acquired for holding)	91.8	12.0
Derivatives and other	252.4	90.0
	$ 7,396.3	$ 4,386.3
Cost of investments acquired:		
Available-for-sale	$ (7,148.7)	$ (3,697.0)
Held-to-maturity	—	(34.7)
Trading (acquired for holding)	(10.2)	(22.9)
Derivatives and other	(112.5)	(106.0)
	$ (7,271.4)	$ (3,860.6)

Concentrations of Financial Instruments

As of June 30, 2013, the Company’s most significant investment in one industry, excluding treasuries, was FGL’s investment securities in the banking industry with a fair value of $1,944.6, or 11.8%, of the invested assets portfolio. FGL’s holdings in this industry includes investments in 78 different issuers with the top ten investments accounting for 34.9% of the total holdings in this industry. As of June 30, 2013 and September 30, 2012 the Company had investments in 13 issuers that exceeded 10% of the Company's stockholders’ equity with a fair value of $1,629.2 and $1,625.9, or 10.0% and 9.8% of the invested assets portfolio, respectively. Additionally, FGL’s largest concentration in any single issuer as of June 30, 2013 and September 30, 2012 had a fair value of $156.9 and $152.9, or 1.0% and 0.7% of FGL's invested assets portfolio, respectively.

(5) Derivative Financial Instruments

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

Asset Derivatives	Classification	June 30, 2013	September 30, 2012
Derivatives designated as hedging instruments:			
Commodity swap and option agreements	Receivables, net	$ —	$ 1.0
Commodity swap and option agreements	Other assets	—	1.0
Foreign exchange forward agreements	Receivables, net	5.2	1.2
Foreign exchange contracts	Other assets	0.6	—
Total asset derivatives designated as hedging instruments		5.8	3.2
Derivatives not designated as hedging instruments:			
Commodity contracts	Receivables, net	4.4	—
Call options	Derivatives	227.4	200.7
Futures contracts	Derivatives	—	—
Foreign exchange contracts	Receivables, net	—	—
Total asset derivatives		$ 237.6	$ 203.9

Liability Derivatives	Classification	June 30, 2013	September 30, 2012
Derivatives designated as hedging instruments:			
Commodity contracts	Accounts payable and other current liabilities	$ 1.2	$ —
Commodity contracts	Other liabilities	0.1	—
Foreign exchange forward agreements	Accounts payable and other current liabilities	0.1	3.1
Total liability derivatives designated as hedging instruments		1.4	3.1
Derivatives not designated as hedging instruments:			
Commodity contracts	Other liabilities	1.0	—
Commodity contracts	Accounts payable and other current liabilities	0.2	—
FIA embedded derivative	Contractholder funds	1,585.9	1,550.8
Futures contracts	Other liabilities	0.4	0.9
Foreign exchange forward contracts	Other liabilities	3.3	4.0
Foreign exchange forward contracts	Accounts payable and other current liabilities	1.1	2.9
Equity conversion feature of preferred stock	Equity conversion feature of preferred stock	147.3	232.0
Total liability derivatives		$ 1,740.6	$ 1,793.7

Changes in AOCI from Derivative Instruments

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

The following table summarizes the pretax impact of derivative instruments designated as cash flow hedges on the accompanying Condensed Consolidated Statements of Operations, and within AOCI, for the three and nine months ended June 30, 2013 and July 1, 2012:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)		Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)		Classification
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012	
Three months ended					
Commodity contracts	$ (1.0)	$ (2.4)	$ (0.3)	$ (0.2)	Consumer products cost of goods sold
Interest rate contracts	—	—	—	—	Interest expense
Foreign exchange contracts	0.2	(0.4)	0.4	(0.1)	Net consumer products sales
Foreign exchange contracts	4.0	5.9	0.5	0.6	Consumer products cost of goods sold
Total	$ 3.2	$ 3.1	$ 0.6	$ 0.3	
Nine months ended					
Commodity contracts	$ (3.4)	$ (2.0)	$ (0.2)	$ (0.7)	Consumer products cost of goods sold
Interest rate contracts	—	—	—	(0.9)	Interest expense
Foreign exchange contracts	0.8	(0.1)	0.7	(0.3)	Net consumer products sales
Foreign exchange contracts	7.2	2.4	(0.4)	(1.3)	Consumer products cost of goods sold
Total	$ 4.6	$ 0.3	$ 0.1	$ (3.2)	

Fair Value Contracts and Other

For derivative instruments that are used to economically hedge the fair value of Spectrum Brands' third party and intercompany foreign currency payments, commodity purchases and interest rate payments, and the equity conversion feature of the Company's Preferred Stock, the gain (loss) associated with the derivative contract is recognized in earnings in the period of change. FGL recognizes all derivative instruments as assets or liabilities in the Condensed Consolidated Balance Sheets at fair value, including derivative instruments embedded in Fixed Indexed Annuity ("FIA") contracts, and any changes in the fair value of the derivatives are recognized immediately in the Condensed Consolidated Statements of Operations. During the three and nine months ended June 30, 2013 and July 1, 2012 the Company recognized the following gains (losses) on these derivatives:

Derivatives Not Designated as Hedging Instruments	Gain (Loss) Recognized in Income on Derivatives				Classification
	Three months ended		Nine months ended		
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012	
Equity conversion feature of preferred stock	$ 52.6	$ (125.5)	$ 81.9	$ (124.0)	Gain (loss) from the change in the fair value of the equity conversion feature of preferred stock
Oil and natural gas commodity contracts	9.6	—	0.8	—	Other income (expense), net
Commodity contracts	(0.2)	—	(0.2)	—	Consumer products cost of goods sold
Foreign exchange contracts	0.5	7.9	(1.8)	11.7	Other income (expense), net
Call options	16.5	(44.6)	114.1	48.7	Net investment gains (losses)
Futures contracts	3.5	(6.6)	12.5	33.9	Net investment gains (losses)
Available-for-sale embedded derivatives	—	0.4	—	0.4	Net investment income
FIA embedded derivatives	53.7	10.3	(35.1)	(90.1)	Benefits and other changes in policy reserves
Total	$ 136.2	$ (158.1)	$ 172.2	$ (119.4)	

Additional Disclosures

Cash Flow Hedges

When appropriate, Spectrum Brands has used interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the changes in fair value recorded in AOCI and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or receivables, respectively, and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. At June 30, 2013, Spectrum Brands did not have any interest rate swaps outstanding.

Spectrum Brands periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign currency denominated third party and intercompany sales or payments. These obligations generally require Spectrum Brands to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Australian Dollars, Brazilian Reals, Mexican Pesos, Canadian Dollars or Japanese Yen. These foreign exchange contracts are cash flow hedges of fluctuating foreign exchange related to sales of product or raw material purchases. Until the sale or purchase is recognized, the fair value of the related hedge is recorded in AOCI and as a derivative hedge asset or liability, as applicable. At the time the sale or purchase is recognized, the fair value of the related hedge is reclassified as an adjustment to "Net consumer product sales" or purchase price variance in "Consumer products cost of goods sold." At June 30, 2013, Spectrum Brands had a series of foreign exchange derivative contracts outstanding through June 2014 with a contract value of $228.4. The derivative net gain on these contracts recorded in AOCI at June 30, 2013 was $2.4, net of tax expense of $1.5 and noncontrolling interest of $1.7. At June 30, 2013, the portion of derivative net gain estimated to be reclassified from AOCI into earnings over the next twelve months is $2.2, net of tax and noncontrolling interest.

Spectrum Brands is exposed to risk from fluctuating prices for raw materials, specifically zinc and brass used in its manufacturing processes. Spectrum Brands hedges a portion of the risk associated with the purchase of 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 June 30, 2013, Spectrum Brands had a series of zinc swap contracts outstanding through September 2014 for 10 tons of raw materials with a contract value of $20.4. At June 30, 2013, Spectrum Brands had a series of brass swap contracts outstanding through September 2014 for one ton with a contract value of $5.6. The derivative net (loss) on these contracts recorded in AOCI at June 30, 2013 was $(0.7), net of tax benefit of $0.1 and noncontrolling interest of $0.4. At June 30, 2013, the portion of derivative net (loss) estimated to be reclassified from AOCI into earnings over the next twelve months is $(0.6), net of tax and noncontrolling interest.

Fair Value Contracts

Spectrum Brands

Spectrum Brands periodically enters into forward and swap foreign exchange contracts to economically hedge the risk from third party and intercompany payments resulting from existing obligations. These obligations generally require Spectrum Brands to exchange foreign currencies for U.S. Dollars, Canadian Dollars, Euros or Australian Dollars. These foreign exchange contracts are fair value hedges of a related liability or asset recorded in the accompanying Condensed Consolidated Balance Sheets. The gain or loss on the derivative hedge contracts is recorded in earnings as an offset to the change in value of the related liability or asset at each period end. At June 30, 2013 and September 30, 2012, Spectrum Brands had $112.7 and $172.6, respectively, of notional value for such foreign exchange derivative contracts outstanding.

Spectrum Brands periodically enters into commodity swap contracts to economically hedge the risk from fluctuating prices for raw materials, specifically the pass-through of market prices for silver used in manufacturing purchased watch batteries. Spectrum Brands hedges a portion of the risk associated with these materials through the use of commodity swaps. The swap contracts are designated as economic hedges with the unrealized gain or loss recorded in earnings and as an asset or liability at each period end. The unrecognized changes in fair value of the hedge contracts are adjusted through earnings when the realized gains or losses affect earnings upon settlement of the hedges. The swaps effectively fix the floating price on a specified quantity of silver through a specified date. At June 30, 2013, Spectrum Brands had a series of such swap contracts outstanding through April 2014 for 60 troy ounces with a contract value of $1.2.

FGL - FIA Contracts

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

FGL purchases derivatives consisting of a combination of call options and futures contracts on the applicable market indices to fund the index credits due to FIA contractholders. The call options are one, two and three year options purchased to match the funding requirements of the underlying policies. On the respective anniversary dates of the index policies, the index used to compute the interest credit is reset and FGL purchases new one, two or three year call options to fund the next index credit. FGL manages the cost of these purchases through the terms of its FIA contracts, which permit FGL to change caps or participation rates, subject to guaranteed minimums, on each contract’s anniversary date. The change in the fair value of the call options and futures contracts is generally designed to offset the portion of the change in the fair value of the FIA embedded derivative related to index performance. The call options and futures contracts are marked to fair value with the change in fair value included as a component of "Net investment gains (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 FGL’s risk tolerance. FGL’s FIA hedging strategy economically hedges the equity returns and exposes FGL to the risk that unhedged market exposures result in divergence between changes in the fair value of the liabilities and the hedging assets. FGL uses a variety of techniques, including direct estimation of market sensitivities and value-at-risk, to monitor this risk daily. FGL intends to continue to adjust the hedging strategy as market conditions and FGL’s risk tolerance change.

Oil and natural gas commodity contracts

The EXCO/HGI JV's primary objective in entering into derivative financial instruments is to manage its exposure to commodity price fluctuations, protect its returns on investments and achieve a more predictable cash flow in connection with its operations. These transactions limit exposure to declines in commodity prices, but also limit the benefits the EXCO/HGI JV would realize if commodity prices increase. When prices for oil and natural gas are volatile, a significant portion of the effect of the EXCO/HGI JV's derivative financial instrument management activities consists of non-cash income or expense due to changes in the fair value of its derivative financial instrument contracts. Cash losses or gains only arise from payments made or received on monthly settlements of contracts or if the EXCO/HGI JV terminates a contract prior to its expiration. The EXCO/HGI JV does not designate its derivative financial instruments as hedging instruments for financial accounting purposes.

	June 30, 2013	
	Three months ended	Nine months ended
Cash settlements on derivative financial instruments	$ (1.9)	$ (1.3)
Non-cash change in fair value of derivative financial instruments	11.5	2.1
Gain on oil and natural gas commodity contracts	$ 9.6	$ 0.8

Settlements in the normal course of maturities of derivative financial instrument contracts result in cash receipts from, or cash disbursements to, the EXCO/HGI JV's derivative contract counterparties. Changes in the fair value of the EXCO/HGI JV's derivative financial instrument contracts, which includes both cash settlements and non-cash changes in fair value, are included in income with a corresponding increase or decrease in the Condensed Consolidated Balance Sheets fair value amounts.

The EXCO/HGI JV's natural gas and oil commodity contract derivative instruments are comprised of swap contracts. Swap contracts allow the EXCO/HGI JV to receive a fixed price and pay a floating market price to the counterparty for the hedged commodity.

The following table presents the volumes and fair value of the EXCO/HGI JV's oil and natural gas derivative financial instruments as of June 30, 2013 (presented on a calendar-year basis) :

(in millions, except volumes and prices)	Volume Mmmbtus/Mbbls	Weighted average strike price per Mmbtu/Bbl	June 30, 2013
Natural gas:			
Swaps:			
Remainder of 2013	10,281.0	$ 3.72	$ 0.8
2014	10,877.0	4.14	2.4
Total natural gas	21,158.0		$ 3.2
Oil:			
Swaps:			
Remainder of 2013	206.0	$ 94.05	$ (0.2)
2014	272.0	91.87	0.5
Total oil	478.0		$ 0.3
Total oil and natural gas derivatives			$ 3.5

At February 14, 2013, the EXCO/HGI JV had outstanding derivative contracts to mitigate price volatility covering 13,365.3 Billion British Thermal Units ("Mmmbtus") of natural gas and 408.0 Thousand Barrels ("Mbbls") of oil. At June 30, 2013, the average forward NYMEX oil prices per barrel ("Bbl") for the remainder of 2013 and calendar year 2014 were $95.12 and $89.97, respectively, and the average forward NYMEX natural gas prices per Mmbtu for the remainder of 2013 and calendar year 2014, were $3.64 and $3.91, respectively.

The EXCO/HGI JV's derivative financial instruments covered approximately 76.8% of production volumes for the three months ended June 30, 2013, and approximately 69.7% of production volumes from inception to June 30, 2013.

Credit Risk

Spectrum Brands is exposed to the risk of default by the counterparties with which Spectrum Brands transacts and generally does not require collateral or other security to support financial instruments subject to credit risk. Spectrum Brands monitors counterparty credit risk on an individual basis by periodically assessing each such counterparty's credit rating exposure. The maximum loss due to credit risk equals the fair value of the gross asset derivatives that are concentrated with certain domestic and foreign financial institution counterparties. Spectrum Brands considers these exposures when measuring its credit reserve on its derivative assets, which was insignificant at June 30, 2013 and $0.1 at September 30, 2012, respectively.

Spectrum Brands' standard contracts do not contain credit risk related contingent features whereby Spectrum Brands would be required to post additional cash collateral as a result of a credit event. However, Spectrum Brands is typically required to post collateral in the normal course of business to offset its liability positions. At June 30, 2013 and September 30, 2012, Spectrum Brands had posted cash collateral of $0.5 and $0.1, respectively, related to such liability positions. In addition, at June 30, 2013 and September 30, 2012, Spectrum Brands had no posted standby letters of credit related to such liability positions. The cash collateral is included in "Receivables, net" within the accompanying Condensed Consolidated Balance Sheets.

The EXCO/HGI JV places derivative financial instruments with the financial institutions that are lenders under the EXCO/HGI JV Credit Agreement that it believes have high quality credit ratings. To mitigate risk of loss due to default, the EXCO/HGI JV has entered into master netting agreements with its counterparties on its derivative financial instruments that allow it to offset its asset position with its liability position in the event of a default by the counterparty.

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

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

Counterparty	Credit Rating (Moody's/S&P)	June 30, 2013 Notional Amount	June 30, 2013 Fair Value	September 30, 2012 Notional Amount	September 30, 2012 Fair Value
Bank of America	Baa2/A-	$ 2,098.4	$ 76.4	$ 1,884.0	$ 64.1
Deutsche Bank	A2/A+	1,564.0	57.4	1,816.5	61.7
Morgan Stanley	Baa1/A-	2,024.7	64.5	1,634.7	51.6
Royal Bank of Scotland	Baa1/A-	479.0	24.6	353.9	19.6
Barclay's Bank	A2/A+	127.1	4.5	131.3	3.1
Credit Suisse	A2/A	—	—	10.0	0.6
		$ 6,293.2	$ 227.4	$ 5,830.4	$ 200.7

Collateral Agreements

FGL is required to maintain minimum ratings as a matter of routine practice under its ISDA agreements. Under some ISDA agreements, FGL has agreed to maintain certain financial strength ratings. A downgrade below these levels provides the counterparty under the agreement the right to terminate the open derivative contracts between the parties, at which time any amounts payable by FGL or the counterparty would be dependent on the market value of the underlying derivative contracts. FGL’s current rating allows multiple counterparties the right to terminate ISDA agreements. No ISDA agreements have been terminated, although the counterparties have reserved the right to terminate the ISDA agreements at any time. In certain transactions, FGL and the counterparty have entered into a collateral support agreement requiring either party to post collateral when the net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. As of June 30, 2013 and September 30, 2012, no collateral was posted by FGL’s counterparties as they did not meet the net exposure thresholds. Accordingly, the maximum amount of loss due to credit risk that FGL would incur if parties to the call options failed completely to perform according to the terms of the contracts was $227.4 and $200.7 at June 30, 2013 and September 30, 2012, respectively.

FGL held 1,244 and 2,835 futures contracts at June 30, 2013 and September 30, 2012, respectively. The fair value of futures contracts represents the cumulative unsettled variation margin (open trade equity net of cash settlements). FGL provides cash collateral to the counterparties for the initial and variation margin on the futures contracts which is included in "Cash and cash equivalents" in the Condensed Consolidated Balance Sheets. The amount of collateral held by the counterparties for such contracts was $4.3 and $9.8 at June 30, 2013 and September 30, 2012, respectively.

(6) Securitizations and Variable Interest Entities

Collateralized Loan Obligations (CLOs)

In February 2013, Salus completed a CLO securitization with a notional aggregate principal amount of $175.5 of the asset-backed loans that it had originated through that date as part of a facility that could issue up to $250.0 of collateralized loan obligations. Salus' continuing involvement with the trust created as part of the securitization include servicing the receivables; retaining an undivided interest (seller's interest) in the receivables; and holding certain retained interests in subordinate securities, subordinate interests in accrued interest and fees on the securitized receivables, and cash reserve accounts. Salus continues to consolidate the loans transferred into the trust as it has determined that it is the primary beneficiary of the variable-interest entity represented by the trust, as result of it holding subordinate interest and servicing the receivables. Neither the Company nor Salus provided guarantees or recourse to the securitization trust other than standard representations and warranties. Included within "Asset-backed loans" under Investments in the Condensed Consolidated Balance Sheet as of June 30, 2013 were asset-based loans of $212.0 that serve as collateral to the obligations of the CLO of $225.0, of which $57.5 are held by unaffiliated entities. The unaffiliated obligations of the CLO are included within "Debt" in the Condensed Consolidated Balance Sheet as of June 30, 2013. At June 30, 2013, the asset-backed loans receivable included $62.5 of seller's interest.

Table of Contents

The table below summarizes select information related to the CLO vehicle in which Salus held a variable interest at June 30, 2013.

	June 30, 2013
Maximum loss exposure	$ 212.0
Asset-backed loans receivable	$ 212.0
Cash and other assets	21.0
Total assets of consolidated VIE	233.0
Long-term debt	225.0
Other liabilities	2.9
Total liabilities of consolidated VIE	$ 227.9

(7) Equity-method investments

EXCO/HGI JV

The following tables present summarized consolidated financial information of HGI's proportionately consolidated equity investment in the EXCO/HGI JV, for the period subsequent to HGI's acquisition of the equity interest on February 14, 2013.

	June 30, 2013
Assets	
Total current assets	$ 54.2
Oil and natural gas properties, net	825.4
Other assets	35.6
Total assets	$ 915.2
Liabilities and members' equity	
Total current liabilities	$ 43.1
Total long-term liabilities	402.4
Total members' equity	469.7
Total liabilities and members' equity	$ 915.2

	Three months ended	Nine months ended
	June 30, 2013	June 30, 2013
Revenues	$ 50.7	$ 73.1
Costs and Expenses		
Oil and natural gas direct operating costs	24.2	36.0
Selling, acquisition, operating and general expenses	19.7	29.2
Total costs and expenses	43.9	65.2
Operating income	6.8	7.9
Other income (expense), net	10.4	(2.7)
Net income	$ 17.2	$ 5.2

(8) Fair Value of Financial Instruments

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

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

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

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

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

When a determination is made to classify an asset or liability within Level 3 of the fair value hierarchy, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. Because certain securities trade in less liquid or illiquid markets with limited or no pricing information, the determination of fair value for these securities is inherently more difficult. However, Level 3 fair value investments may include, in addition to the unobservable or Level 3 inputs, observable components, which are components that are actively quoted or can be validated to market-based sources. The carrying amounts and estimated fair values of the Company's consolidated financial instruments for which the disclosure of fair values is required, including (i) financial assets and liabilities measured and carried at fair value on a recurring basis, and (ii) financial assets and liabilities not measured at fair value but for which fair value disclosures are required; are summarized according to the hierarchy previously described as follows:

	June 30, 2013				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Cash and cash equivalents (a)	$ 1,243.7	$ —	$ —	$ 1,243.7	$ 1,243.7
Contingent purchase price reduction receivable	—	—	41.0	41.0	41.0
Derivatives:					
Foreign exchange forward agreements	—	5.8	—	5.8	5.8
Commodity swap and option agreements	—	4.4	—	4.4	4.4
Call options and futures contracts	—	227.4	—	227.4	227.4
Fixed maturity securities, available-for-sale:					
Asset-backed securities	—	1,432.4	5.1	1,437.5	1,437.5
Commercial mortgage-backed securities	—	518.0	5.9	523.9	523.9
Corporates	—	9,773.8	439.0	10,212.8	10,212.8
Hybrids	—	508.3	—	508.3	508.3
Municipals	—	1,036.9	—	1,036.9	1,036.9
Agency residential mortgage-backed securities	—	111.0	—	111.0	111.0
Non-agency residential mortgage-backed securities	—	1,353.9	—	1,353.9	1,353.9
U.S. Government	183.6	210.4	—	394.0	394.0
Equity securities:					
Available-for-sale	—	258.1	11.7	269.8	269.8
Trading	67.2	—	—	67.2	67.2
Policy loans and other invested assets	—	—	27.6	27.6	27.6
Asset-backed loans	—	—	430.2	430.2	430.2
Total financial assets	$ 1,494.5	$ 15,440.4	$ 960.5	$ 17,895.4	$ 17,895.4
Liabilities					
Total debt (a)	$ —	$ 4,574.3	$ —	$ 4,574.3	$ 4,554.3
Derivatives:					
FIA embedded derivatives, included in contractholder funds	—	—	1,585.9	1,585.9	1,585.9
Futures contracts	—	0.4	—	0.4	0.4
Foreign exchange forward agreements	—	4.5	—	4.5	4.5
Commodity swap and option agreements	—	2.5	—	2.5	2.5
Equity conversion feature of preferred stock	—	—	147.3	147.3	147.3
Redeemable preferred stock, excluding equity conversion feature	—	—	368.9	368.9	325.4
Investment contracts, included in contractholder funds	—	—	12,354.5	12,354.5	13,756.7
Total financial liabilities	$ —	$ 4,581.7	$ 14,456.6	$ 19,038.3	$ 20,377.0

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

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

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

Valuation Methodologies

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

FGL did not adjust prices received from third parties as of June 30, 2013 and September 30, 2012. However, FGL does analyze the third party valuation methodologies and its related inputs to perform assessments to determine the appropriate level within the fair value hierarchy.

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

Investment contracts include deferred annuities, FIAs, IUL and immediate annuities. The fair values of deferred annuity, FIAs, and IUL contracts are based on their cash surrender value (i.e. the cost FGL would incur to extinguish the liability) as these contracts are generally issued without an annuitization date. The fair value of immediate annuities contracts is derived by calculating a new fair value interest rate using the updated yield curve and treasury spreads as of the respective reporting date. At June 30, 2013 and September 30, 2012, this resulted in lower fair value reserves relative to the carrying value. FGL is not required to and has not estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the definition of insurance contracts that are exceptions from financial instruments that require disclosure of fair value.

The EXCO/HGI JV evaluates oil and natural gas derivative assets and liabilities in accordance with master netting agreements with the derivative counterparties, but reports them on a gross basis on the Condensed Consolidated Balance Sheets. Net derivative asset values are determined primarily by quoted futures prices and utilization of the counterparties' credit-adjusted risk-free rate curves and net derivative liabilities are determined by utilization of a credit-adjusted risk-free rate curve. The credit-adjusted risk-free rates of EXCO/HGI JV's counterparties are based on an independent market-quoted credit default swap rate curve for the counterparties' debt plus the London Interbank Offered Rate ("LIBOR") curve as of the end of the reporting period. The EXCO/HGI JV's credit-adjusted risk-free rate is based on its cost of debt plus the LIBOR curve as of the end of the reporting period.

The EXCO/HGI JV's oil derivatives are swap contracts for notional Bbls of oil at fixed NYMEX West Texas Intermediate ("WTI") oil prices. The asset and liability values attributable to oil derivatives as of the end of the reporting period are based on (i) the contracted notional volumes, (ii) independent active NYMEX futures price quotes for WTI oil, and (iii) the applicable estimated credit-adjusted risk-free rate curve, as described above.

The EXCO/HGI JV's natural gas derivatives are swap contracts for notional Mmbtus of natural gas at posted price indexes, including NYMEX Henry Hub ("HH") swap contracts. The asset and liability values attributable to natural gas derivatives as of the end of the reporting period are based on (i) the contracted notional volumes, (ii) independent

active NYMEX futures price quotes for HH for natural gas swaps, and (iii) the applicable credit-adjusted risk-free rate curve, as described above.

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

Quantitative information regarding significant unobservable inputs used for recurring Level 3 fair value measurements of financial instruments carried at fair value as of June 30, 2013 is as follows:

			Fair Value at		Range (Weighted average)	
Assets	**Valuation Technique**	**Unobservable Input(s)**	**June 30, 2013**	**September 30, 2012**	**June 30, 2013**	**September 30, 2012**
Contingent purchase price reduction receivable	Discounted cash flow	Probability of collection	$ 41.0	$ 41.0	88% - 96% (92%)	88% - 96% (92%)
		Expected term			9 months	9 months
		Discount rate			1%	0.72%
		Credit insurance risk premium			11%	12%
Asset-backed securities	Broker-quoted	Offered quotes	5.1	15.9	106%	100% - 110% (103%)
Commercial mortgage-backed securities	Broker-quoted	Offered quotes	5.9	5.0	100%	101%
Corporates	Broker-quoted	Offered quotes	400.2	103.3	0% - 108% (93%)	0% - 141% (69%)
Corporates	Market Pricing	Quoted prices	38.8	32.0	88% - 126% (96%)	88% - 158% (98%)
Hybrids	Market Pricing	Quoted prices	—	8.8	—	0% - 103% (25%)
Equity	Market Pricing	Quoted prices	11.7	—	0.4% - 98% (58%)	—
Total			$ 502.7	$ 206.0		
Liabilities						
FIA embedded derivatives, included in contractholder funds	Discounted cash flow	Market value of option	$ 1,585.9	$ 1,550.8	0% - 37%	0% - 31% (4%)
		SWAP rates			2% - 3% (2%)	0.76% - 2% (1%)
		Mortality multiplier			80%	70%
		Surrender rates			0.50% - 75% (7%)	2% - 50% (7%)
		Non-performance spread			0.25% - 0.25% (0.25%)	0.25% - 0.25% (0.25%)
Equity conversion feature of preferred stock	Monte Carlo simulation / Option model	Annualized volatility of equity	147.3	232.0	42%	41%
		Discount yield			12%	12% - 13% (12%)
		Non-cash accretion rate			0%	0%
		Calibration adjustment			17% - 19% (18%)	10% - 13% (11%)
Total			$ 1,733.2	$ 1,782.8		

The significant unobservable inputs used in the fair value measurement of the contingent purchase price reduction receivable are the probability of collection depending on the outcomes of litigation and regulatory action, the

expected term until payment, discount rate and the credit insurance risk premium. Generally, an increase in the assumptions for the expected term, discount rate and credit insurance risk premium would decrease the fair value of the contingent purchase price receivable. An increase in the probability of collection would increase the fair value of the contingent purchase price reduction receivable.

The significant unobservable inputs used in the fair value measurement of FIA embedded derivatives included in contractholder funds are market value of option, interest swap rates, mortality multiplier, surrender rates, and non-performance spread. The mortality multiplier is based on the 1983 annuity table and assumes the contractholder population is 50% female and 50% male. Significant increases (decreases) in the market value of option in isolation would result in a higher (lower) fair value measurement. Significant increases (decreases) in interest swap rates, mortality multiplier, surrender rates, or non-performance spread in isolation would result in a lower (higher) fair value measurement. Generally, a change in any one unobservable input would not result in a change in any other unobservable input.

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

The following tables summarize changes to the Company’s financial instruments carried at fair value and classified within Level 3 of the fair value hierarchy for the three and nine months ended June 30, 2013 and July 1, 2012. This summary excludes any impact of amortization of VOBA and DAC. The gains and losses below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

	Three months ended June 30, 2013							
		Total Gains (Losses)						
	Balance at Beginning of Period	Included in Earnings	Included in AOCI	Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets								
Contingent purchase price reduction receivable	$ 41.0	$ —	$ —	$ —	$ —	$ —	$ —	$ 41.0
Fixed maturity securities available-for-sale:								
Asset-backed securities	5.3	—	(0.1)	—	—	(0.1)	—	5.1
Commercial mortgage-backed securities	6.2	—	(0.3)	—	—	—	—	5.9
Corporates	356.5	—	(12.0)	106.2	—	(11.7)	—	439.0
Equity securities available-for-sale	10.0	—	1.6	0.1	—	—	—	11.7
Total assets at fair value	$ 419.0	$ —	$ (10.8)	$ 106.3	$ —	$ (11.8)	$ —	$ 502.7

		Total (Gains) Losses						
	Balance at Beginning of Period	Included in Earnings	Included in AOCI	Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
Liabilities								
FIA embedded derivatives, included in contractholder funds	$ 1,639.6	$ (53.7)	$ —	$ —	$ —	$ —	$ —	$ 1,585.9
Equity conversion feature of preferred stock	202.7	(52.6)	—	—	—	(2.8)	—	147.3
Total liabilities at fair value	$ 1,842.3	$ (106.3)	$ —	$ —	$ —	$ (2.8)	$ —	$ 1,733.2

	Nine months ended June 30, 2013							
	Balance at Beginning of Period	Total Gains (Losses)		Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
		Included in Earnings	Included in AOCI					
Assets								
Contingent purchase price reduction receivable	$ 41.0	$ —	$ —	$ —	$ —	$ —	$ —	$ 41.0
Fixed maturity securities available-for-sale:								
Asset-backed securities	15.9	—	(0.2)	—	—	(0.1)	(10.5)	5.1
Commercial mortgage-backed securities	5.0	—	(0.1)	1.0	—	—	—	5.9
Corporates	135.3	(0.3)	(10.8)	383.6	(9.6)	(25.4)	(33.8)	439.0
Hybrids	8.8	—	(0.1)	—	—	—	(8.7)	—
Equity securities available-for-sale	—	—	1.6	10.1	—	—	—	11.7
Total assets at fair value	$ 206.0	$ (0.3)	$ (9.6)	$ 394.7	$ (9.6)	$ (25.5)	$ (53.0)	$ 502.7

	Balance at Beginning of Period	Total (Gains) Losses		Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
		Included in Earnings	Included in AOCI					
Liabilities								
FIA embedded derivatives, included in contractholder funds	$ 1,550.8	$ 35.1	$ —	$ —	$ —	$ —	$ —	$ 1,585.9
Equity conversion feature of preferred stock	232.0	(81.9)	—	—	—	(2.8)	—	147.3
Total liabilities at fair value	$ 1,782.8	$ (46.8)	$ —	$ —	$ —	$ (2.8)	$ —	$ 1,733.2

(a) The net transfers in and out of Level 3 during the three and nine months ended June 30, 2013 were exclusively to or from Level 2.

	Three months ended July 1, 2012							
	Balance at Beginning of Period	Total Gains (Losses)		Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
		Included in Earnings	Included in AOCI					
Assets								
Contingent purchase price reduction receivable	$ 41.0	$ —	$ —	$ —	$ —	$ —	$ —	$ 41.0
Fixed maturity securities available-for-sale:								
Asset-backed securities	503.0	—	0.9	262.5	—	(11.0)	3.7	759.1
Corporates	120.1	0.2	(3.6)	90.3	(7.7)	(33.7)	40.2	205.8
Hybrids	5.1	—	0.1	—	—	—	—	5.2
Municipals	10.4	—	—	—	—	—	(10.3)	0.1
Agency residential mortgage-backed securities	3.3	—	—	—	—	—	(3.3)	—
Non-agency residential mortgage-backed securities	1.2	(0.1)	0.1	—	(0.5)	(0.1)	—	0.6
Total assets at fair value	$ 684.1	$ 0.1	$ (2.5)	$ 352.8	$ (8.2)	$ (44.8)	$ 30.3	$ 1,011.8

	Balance at Beginning of Period	Total (Gains) Losses		Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
		Included in Earnings	Included in AOCI					
Liabilities								
FIA embedded derivatives, included in contractholder funds	$ 1,496.7	$ (10.3)	$ —	$ —	$ —	$ —	$ —	$ 1,486.4
Equity conversion feature of preferred stock	73.9	125.5	—	—	—	—	—	199.4
Available-for-sale embedded derivatives	0.4	(0.4)	—	—	—	—	—	—
Total liabilities at fair value	$ 1,571.0	$ 114.8	$ —	$ —	$ —	$ —	$ —	$ 1,685.8

	Nine months ended July 1, 2012							
	Balance at Beginning of Period	Total Gains (Losses)		Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
		Included in Earnings	Included in AOCI					
Assets								
Contingent purchase price reduction receivable	$ —	$ 41.0	$ —	$ —	$ —	$ —	$ —	41.0
Fixed maturity securities available-for-sale:								
Asset-backed securities	374.5	—	7.0	394.9	—	(31.8)	14.5	759.1
Corporates	159.7	0.2	(5.9)	91.6	(24.4)	(45.3)	29.9	205.8
Hybrids	5.2	—	—	—	—	—	—	5.2
Municipals	—	—	0.1	10.2	—	—	(10.2)	0.1
Agency residential mortgage-backed securities	3.3	—	—	—	—	—	(3.3)	—
Non-agency residential mortgage-backed securities	3.8	(0.1)		—	(0.5)	(0.3)	(2.3)	0.6
Total assets at fair value	$ 546.5	$ 41.1	$ 1.2	$ 496.7	$ (24.9)	$ (77.4)	$ 28.6	$ 1,011.8

	Balance at Beginning of Period	Total (Gains) Losses		Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
		Included in Earnings	Included in AOCI					
Liabilities								
FIA embedded derivatives, included in contractholder funds	$ 1,396.3	$ 90.1	$ —	$ —	$ —	$ —	$ —	$ 1,486.4
Equity conversion feature of preferred stock	75.4	124.0	—	—	—	—	—	199.4
Available-for-sale embedded derivatives	0.4	(0.4)	—	—	—	—	—	—
Total liabilities at fair value	$ 1,472.1	$ 213.7	$ —	$ —	$ —	$ —	$ —	$ 1,685.8

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

FGL reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the beginning fair value for the reporting period in which the changes occur. FGL transferred $79.3 U.S. Government securities from Level 1 into Level 2 for the nine months ended June 30, 2013 reflecting the level of market activity in these instruments and there were no transfers between Level 1 and Level 2 for the three and nine months ended July 1, 2012.

Primary market issuance and secondary market activity for certain asset-backed and hybrid securities during the three and nine months ended June 30, 2013, as well corporate securities during the three and nine months ended June 30, 2013, increased the market observable inputs used to establish fair values for similar securities. These factors, along with more consistent pricing from third-party sources, resulted in FGL concluding that there is sufficient trading activity in similar instruments to support classifying these securities as Level 2 as of June 30, 2013. Accordingly, FGL’s assessment resulted in a net transfer out of Level 3 of $53.0 related to corporate, hybrid and asset-backed securities during the nine months ended June 30, 2013. FGL's assessment resulted in a net transfer out of Level 3 of $13.6 and $15.8 related to municipals, agency and non-agency residential mortgage-backed

securities and a net transfer into Level 3 of $43.9 and $44.4 related to asset-backed securities and corporates during the three and nine months ended July 1, 2012, respectively.

(9) Goodwill and Intangibles, including DAC and VOBA

A summary of the changes in the carrying amounts of goodwill and intangible assets, including FGL's deferred acquisition costs ("DAC") and value of business acquired ("VOBA") balances, are as follows:

		Intangible Assets				
	Goodwill	Indefinite Lived	Definite Lived	VOBA	DAC	Total
Balance at Balance at September 30, 2012	$ 694.2	$ 841.1	$ 873.9	$ 104.3	$ 169.2	$ 1,988.5
Acquisitions (Note 3)	787.7	330.0	190.6	—	—	520.6
Deferrals	—	—	—	—	109.2	109.2
Less: Components of amortization -						
Periodic amortization	—	—	(57.5)	(151.8)	(62.0)	(271.3)
Interest	—	—	—	16.2	7.1	23.3
Unlocking	—	—	—	22.6	4.8	27.4
Reclassifications	—	—	—	—	—	—
Adjustment for unrealized investment losses, net	—	—	—	211.3	49.6	260.9
Effect of translation	(11.7)	(4.2)	(4.5)	—	—	(8.7)
Balance at Balance at June 30, 2013	$ 1,470.2	$ 1,166.9	$ 1,002.5	$ 202.6	$ 277.9	$ 2,649.9

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

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

Amortization of DAC and VOBA is based on the amount of gross margins or profits recognized, including investment gains and losses. The adjustment for unrealized net investment losses represents the amount of DAC and VOBA that would have been amortized if such unrealized gains and losses had been recognized. This is referred to as the "shadow adjustments" as the additional amortization is reflected in other comprehensive income rather than the statement of operations. As of June 30, 2013 and September 30, 2012, the VOBA balance included cumulative adjustments for net unrealized investment (gains) of $128.1 and $339.4, respectively, and the DAC balances included cumulative adjustments for net unrealized investment (gains) of $1.1 and $50.7, respectively. Amortization of VOBA and DAC for the three months ended June 30, 2013 and July 1, 2012 was $37.3 and $23.8, and $27.4 and $3.1 respectively. Amortization of VOBA and DAC for the nine months ended June 30, 2013 and July 1, 2012 was $113.0 and $101.3, and $50.1 and $10.7, respectively.

The above DAC balances include $20.6 and $9.1 of deferred sales inducements ("DSI"), net of shadow adjustments, as of June 30, 2013 and September 30, 2012, respectively.

Definite lived intangible assets are summarized as follows:

	June 30, 2013			September 30, 2012			
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net	Amortizable Life
Customer relationships	$ 879.4	$ (147.9)	$ 731.5	$ 796.2	$ (113.0)	$ 683.2	15 to 20 years
Trade names	171.5	(41.2)	130.3	150.8	(28.3)	122.5	1 to 12 years
Technology assets	175.5	(34.8)	140.7	91.0	(22.8)	68.2	4 to 17 years
	$ 1,226.4	$ (223.9)	$ 1,002.5	$ 1,038.0	$ (164.1)	$ 873.9	

Amortization expense for definite lived intangible assets is as follows:

	Three months ended		Nine months ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Customer relationships	$ 11.6	$ 10.1	$ 33.3	$ 30.0
Trade names	4.3	3.6	12.2	9.8
Technology assets	4.4	2.4	12.0	6.7
	$ 20.3	$ 16.1	$ 57.5	$ 46.5

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

The weighted average amortization period for VOBA and DAC are approximately 4.9 and 7.7 years, respectively. Estimated amortization expense for VOBA and DAC in future fiscal periods is as follows:

	Estimated Amortization Expense	
Fiscal Year	VOBA	DAC
2013	$ 9.0	$ 4.5
2014	45.7	22.3
2015	43.7	23.6
2016	39.5	22.9
2017	33.0	22.0
2018 and thereafter	159.8	183.7

Table of Contents

(10) Debt

The Company’s consolidated debt consists of the following:

	June 30, 2013		September 30, 2012	
	Amount	Rate	Amount	Rate
HGI:				
7.875% Senior Secured Notes, due July 15, 2019	$ 700.0	7.9%	$ —	—
10.625% Senior Secured Notes, due November 15, 2015	—	—	500.0	10.6%
Spectrum Brands:				
Term loan, due December 17, 2019	757.5	4.6%	—	—%
Former term loan facility	—	—%	370.2	5.1%
9.5% Senior Secured Notes, due June 15, 2018	950.0	9.5%	950.0	9.5%
6.75% Senior Notes, due March 15, 2020	300.0	6.8%	300.0	6.8%
6.375% Senior Notes, due November 15, 2020	520.0	6.4%	—	—%
6.625% Senior Notes, due November 15, 2022	570.0	6.6%	—	—%
ABL Facility, expiring May 24, 2017	69.5	2.1%	—	4.3%
Other notes and obligations	33.0	8.3%	18.1	10.9%
Capitalized lease obligations	29.9	6.2%	26.7	6.2%
FGL				
6.375% Senior Notes, due April 1, 2021	300.0	6.4%	—	—
EXCO/HGI Production Partners				
EXCO/HGI JV Credit Agreement, due February 14, 2018	274.9	2.7%	—	—
Salus				
Unaffiliated long-term debt of consolidated variable-interest entity	57.5	5.8%	—	—
Total	4,562.3		2,165.0	
Original issuance (discounts) premiums on debt, net	(8.0)		2.0	
Total debt	4,554.3		2,167.0	
Less current maturities	40.8		16.4	
Non-current portion of debt	$ 4,513.5		$ 2,150.6	

HGI

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

The remaining 10.625% Notes were redeemed by the trustee on January 23, 2013. In connection with the Tender Offer and Satisfaction and Discharge, HGI recorded $58.9 of charges to "Interest Expense" in the Condensed Consolidated Statements of Operations for the nine months ended June 30, 2013, consisting of $45.7 cash charges for fees and expenses related to the Tender Offer, $0.2 cash charges related to the Satisfaction and Discharge and $13.0 of non-cash charges for the write down of debt issuance costs and net unamortized discount.

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

In connection with the 7.875% Note offering the Company recorded $20.0 of fees during the nine months ended June 30, 2013. These fees are classified as "Other assets" in the accompanying Condensed Consolidated Balance Sheets as of June 30, 2013, and are being amortized to interest expense utilizing the effective interest method over the term of the 7.875% Notes.

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

The Indenture governing the 7.875% Notes contains covenants limiting, among other things, and subject to certain qualifications and exceptions, the Company’s ability, and, in certain cases, the ability of the Company’s subsidiaries, to incur additional indebtedness; create liens; engage in sale-leaseback transactions; pay dividends or make distributions in respect of capital stock; make certain restricted payments; sell assets; engage in transactions with affiliates; or consolidate or merge with, or sell substantially all of the Company’s assets to, another person. The Company is also required to maintain compliance with certain financial tests, including minimum liquidity and collateral coverage ratios that are based on the fair market value of the collateral, including the Company’s equity interests in Spectrum Brands and its other subsidiaries such as HFG and HGI Funding LLC. At June 30, 2013, the Company was in compliance with all covenants under the indenture governing the 7.875% Notes.

On July 18, 2013, HGI entered into a Purchase Agreement, as amended by the Purchase Agreement Amendment dated as of July 19, 2013 (as so amended, the “Purchase Agreement”). In connection with the Purchase Agreement, on July 23, 2013, HGI issued $225.0 aggregate principal amount of 7.875% senior secured notes due 2019 (the “New Notes”). The New Notes were issued under the same indenture governing the 7.875% Notes. See Note 21, Subsequent Events, for additional information with respect to the New Notes.

Spectrum Brands

Term Loan

In December 2012, Spectrum Brands entered into the Term Loan which matures on December 17, 2019, and provides borrowings in an aggregate principal amount of $800.0, with $100.0 in Canadian dollar equivalents in connection with the acquisition of the HHI Business from Stanley Black & Decker. A portion of the Term Loan proceeds were used to refinance the former term loan facility, which was scheduled to mature on June 17, 2016, and had an aggregate amount outstanding of $370.2 prior to refinancing. In connection with the refinancing, Spectrum Brands recorded accelerated amortization of portions of the unamortized discount and unamortized debt issuance costs related to the former term loan facility totaling $5.5 as an adjustment to interest expense during the nine months ended June 30, 2013.

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

In connection with the issuance of the Term Loan, Spectrum Brands recorded $0.2 and $19.3 of fees during the three and nine months ended June 30, 2013, respectively, of which $16.9, respectively, is classified as Debt issuance costs within "Other assets" in the accompanying Condensed Consolidated Balance Sheets and is being amortized as an adjustment to interest expense over the remaining life of the Term Loan with the remainder of $2.4 reflected as an increase to interest expense during the nine months ended June 30, 2013, respectively.

6.375% Notes and 6.625% Notes

In December 2012, in connection with the Hardware Acquisition, Spectrum Brands assumed $520.0 aggregate principal amount of the 6.375% Notes, and $570.0 aggregate principal amount of the 6.625% Notes, previously issued by Spectrum Brands Escrow Corporation. The 6.375% Notes and the 6.625% Notes are unsecured and guaranteed by Spectrum Brands' parent company, SB/RH Holdings, LLC, as well as by existing and future domestic restricted subsidiaries.

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

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

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

Spectrum Brands recorded $12.9 of fees in connection with the offering of the 6.375% Notes during the nine months ended June 30, 2013 and $14.1 of fees in connection with the offering of the 6.625% Notes during the nine months ended June 30, 2013. The fees are classified as "Other assets" in the accompanying Condensed Consolidated Balance Sheets as of June 30, 2013 and are being amortized as an adjustment to interest expense over the respective remaining lives of the 6.375% Notes and the 6.625% Notes.

ABL Facility

In December 2012, Spectrum Brands exercised its option to increase its asset based lending revolving credit facility (the "ABL Facility") from $300.0 to $400.0 and extend the maturity to May 24, 2017. In connection with the increase and extension, Spectrum Brands incurred $0.3 of fees during the nine months ended June 30, 2013, respectively. The fees are classified as "Other assets" in the accompanying Condensed Consolidated Balance Sheets as of June 30, 2013 and are being amortized as an adjustment to interest expense over the remaining life of the ABL Facility.

In March 2013, Spectrum Brands amended its ABL Facility to conform certain provisions to reflect the acquisition of the HHI Business. In connection with the amendment, Spectrum Brands incurred $0.1 and $0.2 of fees during the three and nine months ended June 30, 2013, respectively. The fees are classified as "Other assets" in the accompanying Condensed Consolidated Balance Sheets as of June 30, 2013 and are being amortized as an adjustment to interest expense over the remaining life of the ABL Facility.

As a result of borrowings and payments under the ABL Facility, at June 30, 2013, Spectrum Brands had aggregate borrowing availability of approximately $228.1, net of lender reserves of $7.9 and outstanding letters of credit of $38.5.

FGL

In March 2013, FGL issued $300.0 aggregate principal amount of its 6.375% senior notes due April 1, 2021, at par value. Interest is payable semi-annually on April 1 and October 1 of each year, commencing on October 1,

2013. FGL used a portion of the net proceeds from the issuance to pay a $73.0 dividend to HGI and expects to use the remainder for general corporate purposes, to support the growth of its subsidiary life insurance company.

In connection with the offering, FGL capitalized $10.2 of debt issuance costs during the nine months ended June 30, 2013. The fees are classified as "Other assets" in the accompanying Condensed Consolidated Balance Sheets as of June 30, 2013 and are being amortized over the redemption date using the straight-line method over the remaining term of the debt.

EXCO/HGI Production Partners

In connection with its formation, the EXCO/HGI JV entered into the EXCO/HGI JV Credit Agreement which had an initial borrowing base of $400.0. Borrowings under the EXCO/HGI JV Credit Agreement are collateralized by first lien mortgages providing a security interest of not less than 80% of the Engineered Value (as defined in the agreement) of the oil and natural gas properties evaluated by the lenders for purposes of establishing the borrowing base. As of June 30, 2013, $369.0 was drawn under this agreement and HGI's proportionate share of the obligation was $274.9. The interest rate grid ranges from London Interbank Offered Rate ("LIBOR") plus 175 Basis Points ("bps") to 275 bps (or Alternate Base Rate ("ABR") plus 75 bps to 175 bps), depending on the percentages of drawn balances to the borrowing base as defined in the agreement. The borrowing base is redetermined semi-annually, with us and the lenders having the right to request interim unscheduled redeterminations in certain circumstances. The EXCO/HGI JV entered into the First Amendment to the EXCO/HGI JV Credit Agreement on March 5, 2013, which increased the borrowing base to $470.0 as a result of the acquisition of the shallow Cotton Valley assets from an affiliate of BG Group. The EXCO/HGI JV Credit Agreement matures on February 14, 2018.

Pursuant to the agreement, within 60 days of formation of the EXCO/HGI JV, the partnership is required to enter into derivative financial instruments covering not less than 75% of its forecasted proved producing natural gas production for 2013 and 50% of such forecasted production for 2014. For future years, the EXCO/HGI JV is permitted to have derivative financial instruments covering no more than 100% of the forecasted production from proved developed producing reserves (as defined in the agreement) for any month during the first two years of the forthcoming five year period, 90% of the forecasted production from proved developed producing reserves for any month during the third year of the forthcoming five year period and 85% of the forecasted production from proved developed producing reserves for any month during the fourth and fifth year of the forthcoming five year period.

The financial covenants contained in the EXCO/HGI JV Credit Agreement require that the EXCO/HGI JV:

- maintain a consolidated current ratio (as defined in the agreement of at least 1.0 to 1.0 as of the end of any fiscal quarter; and
- not permit the EXCO/HGI JV's ratio of consolidated funded indebtedness (as defined in the agreement) to consolidated EBITDAX (as defined in the agreement) to be greater than 4.5 to 1.0 at the end of any fiscal quarter.

As of June 30, 2013, the EXCO/HGI JV was in compliance with these covenants.

Salus

Long-term debt of the consolidated VIE include the unaffiliated obligations of a CLO VIE of $57.5, as of June 30, 2013. In February 2013, Salus completed a CLO securitization of collateralized loan obligations of up to $225.0 with a notional aggregate principal amount of $175.5 of the asset-backed loan receivables that it had originated through that date, of which $63.5 was taken up by unaffiliated entities. The obligations of the securitization is secured by the assets of the VIE, primarily asset-backed loan receivables, and carry a variable interest rate ranging from LIBOR plus 2.5% to LIBOR plus 10.5%. See Note 6, Securitizations and Variable Interest Entities, for additional information with respect to the securitization.

(11) Defined Benefit Plans

HGI

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

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

Spectrum Brands

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

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

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

Consolidated

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

	Three months ended		Nine months ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Service cost	$ 0.9	$ 0.7	$ 2.6	$ 2.0
Interest cost	2.5	2.8	7.8	7.7
Expected return on assets	(2.5)	(2.3)	(7.4)	(6.1)
Recognized net actuarial loss	0.5	0.2	1.6	0.5
Employee contributions	—	—	(0.1)	(0.1)
Net periodic benefit expense	$ 1.4	$ 1.4	$ 4.5	$ 4.0
Contributions made during period	$ 1.3	$ 1.3	$ 3.2	$ 3.9

(12) Reinsurance

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

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

	Three months ended				Nine months ended			
	June 30, 2013		July 1, 2012		June 30, 2013		July 1, 2012	
	Insurance Premiums	Benefits and Other Changes in Insurance Policy Reserves	Insurance Premiums	Benefits and Other Changes in Insurance Policy Reserves	Insurance Premiums	Benefits and Other Changes in Insurance Policy Reserves	Insurance Premiums	Benefits and Other Changes in Insurance Policy Reserves
Direct	$ 69.9	$ 150.9	$ 74.5	$ 224.9	$ 212.3	$ 579.8	$ 225.7	$ 749.7
Assumed	9.1	8.2	11.4	9.0	24.5	15.7	35.7	27.0
Ceded	(60.0)	(51.9)	(73.8)	(92.9)	(189.9)	(163.8)	(219.2)	(217.0)
Net	$ 19.0	$ 107.2	$ 12.1	$ 141.0	$ 46.9	$ 431.7	$ 42.2	$ 559.7

Amounts payable or recoverable for reinsurance on paid and unpaid claims are not subject to periodic or maximum limits. During the three and nine months ended June 30, 2013 and July 1, 2012, FGL did not write off any reinsurance balances. Effective June 17, 2013, FGL rescinded the portion of the coinsurance agreement dated April 1, 2011 between Fidelity & Guaranty Life Insurance Company ("FGL Insurance") and Wilton Re U.S. Holdings, Inc. ("Wilton Re") which covers certain disability income riders. Wilton Re has agreed to pay FGL Insurance a rescission settlement of $6.4. In addition, FGL Insurance will re-establish the $4.5 reserve liability previously ceded to Wilton Re in connection with this business. FGL Insurance recognized a net gain on the rescission of $1.9. As discussed below under "Wilton Agreement," FGL monitors the risk of default by reinsurers.

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

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

FGL had the following significant reinsurance agreements during the nine months ended June 30, 2013 and July 1, 2012 as described below.

Wilton Agreement

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

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

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

Commissioners Annuity Reserve Valuation Method Facility ("CARVM")

Effective October 1, 2012, FGL Insurance recaptured a CARVM reinsurance agreement from Old Mutual Reassurance (Ireland) Ltd., an affiliate of OM Group ("OM Re") and simultaneously ceded the business to Raven Re. The recapture of the OM Re CARVM reinsurance agreement satisfied an obligation of FGL under the F&G Stock Purchase Agreement. In connection with the new CARVM reinsurance agreement, FGL and Raven Re entered into an agreement with Nomura Bank International plc ("Nomura") to establish a $295.0 reserve financing facility in the form of a letter of credit issued by Nomura and Nomura charged an upfront structuring fee in the amount of $2.8. The reserve financing liability is set to be reduced by $6.3 each quarter subsequent to establishment. The structuring fee was paid by FGL Insurance and will be deferred and amortized over the expected life of the facility. As this letter of credit is provided by an unaffiliated financial institution, Raven Re is permitted to carry the letter of credit as an admitted asset on the Raven Re statutory balance sheet.

Front Street

On December 31, 2012, FGL entered into a Reinsurance Agreement with Front Street Cayman, also an indirect subsidiary of the Company. Pursuant to the Reinsurance Agreement, Front Street Cayman has reinsured approximately 10%, or approximately $1,500.0 of FGL's policy liabilities, on a funds withheld basis. In connection with the Reinsurance Agreement, Front Street Cayman, FGL and an indirect subsidiary of the Company, Five Island, entered into an investment management agreement, pursuant to which Five Island will manage the assets securing Front Street Cayman's reinsurance obligations under the Reinsurance Agreement, which assets are held by FGL in a segregated account. The assets in the segregated account will be invested in accordance with FGL's existing guidelines.

(13) Stock Compensation

The Company recognized consolidated stock compensation expense as follows:

	Three months ended		Nine months ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Stock compensation expense	$ 22.7	$ 5.3	$ 44.9	$ 17.1
Less:				
Related tax benefit	0.7	—	1.2	—
Noncontrolling interest	7.3	1.9	13.6	6.8
Net	$ 14.7	$ 3.4	$ 30.1	$ 10.3

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

A summary of stock options outstanding as of June 30, 2013 and related activity during the nine months then ended, under HGI and FGL's respective incentive plans are as follows (share amounts in thousands):

	HGI			FGL		
Stock Option Awards	**Options**	**Weighted Average Exercise Price**	**Weighted Average Grant Date Fair Value**	**Options**	**Weighted Average Exercise Price**	**Weighted Average Grant Date Fair Value**
Stock options outstanding at September 30, 2012	2,285	$ 4.96	$ 1.77	201	$ 38.20	$ 3.90
Granted	1,528	8.52	3.53	194	49.45	3.85
Exercised	—	—	—	(27)	38.14	3.90
Forfeited or expired	(33)	6.18	2.32	—	—	—
Stock options outstanding at June 30, 2013	3,780	6.39	2.47	368	43.77	3.88
Stock options vested and exercisable at June 30, 2013	865	6.12	2.33	—	—	—
Stock options outstanding and expected to vest	2,915	6.46	2.52	301	43.77	3.88

A summary of restricted stock and restricted stock units outstanding as of June 30, 2013 and related activity during the nine months then ended, under HGI, Spectrum Brands and FGL's respective incentive plans are as follows (share amounts in thousands):

	HGI		Spectrum Brands	
Restricted Stock Awards	**Shares**	**Weighted Average Grant Date Fair Value**	**Shares**	**Weighted Average Grant Date Fair Value**
Restricted stock outstanding at September 30, 2012	830	$ 4.93	13	$ 28.00
Granted	3,256	8.52	—	—
Vested	(633)	8.23	(13)	28.00
Forfeited	(33)	7.93	—	—
Restricted stock outstanding at June 30, 2013	3,420	7.71	—	—
Restricted stock expected to vest	3,420	7.71	—	—

	HGI		Spectrum Brands		FGL	
Restricted Stock Units	**Units**	**Weighted Average Grant Date Fair Value**	**Units**	**Weighted Average Grant Date Fair Value**	**Units**	**Weighted Average Grant Date Fair Value**
Restricted stock units outstanding at September 30, 2012	17	$ 4.61	1,931	$ 28.45	—	$ —
Granted	9	8.33	666	45.35	52	3.85
Vested	(17)	4.61	(1,121)	28.28	—	—
Forfeited	—	—	(290)	29.79	(1)	—
Restricted stock units outstanding at June 30, 2013	9	—	1,186	37.76	51	3.85
Restricted stock units vested and exercisable at June 30, 2013	22	4.61	—	—		—
Restricted stock units expected to vest	9	8.33	1,186	37.76	41	3.85

HGI

HGI granted no stock option awards during the three months ended June 30, 2013 and July 1, 2012. HGI granted stock option awards representing approximately 1,528 thousand and 2,215 thousand shares during the nine months ended June 30, 2013 and July 1, 2012, respectively. All of these grants are time based, and vest either immediately, or over periods of 12 to 48 months. The total fair value of the stock option grants on their respective grant dates were approximately $5.4 and $3.6, respectively.

HGI granted no restricted stock awards during the three months ended June 30, 2013 and July 1, 2012. HGI granted restricted stock awards representing approximately 3,256 thousand and 818 thousand shares during the nine months ended June 30, 2013 and July 1, 2012, respectively. All of these grants are time based, and vests either immediately, or over periods of 7 to 36 months. The total fair value of the restricted stock grants on their respective grant dates were approximately $27.7 and $3.9, respectively.

HGI granted no restricted stock unit awards during the three months ended June 30, 2013 and July 1, 2012. HGI granted restricted stock unit awards representing approximately 9 thousand and 22 thousand shares, respectively, during the nine months ended June 30, 2013 and July 1, 2012. All of these grants are time based, and vests either immediately, or over periods of 7 to 12 months. The total fair value of the restricted stock grants on their respective grant dates was approximately $0.1 and $0.1, respectively.

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

As of June 30, 2013, there was approximately $16.5 of total unrecognized compensation cost related to unvested share-based compensation agreements, which is expected to be recognized over a weighted-average period of 2.24 years.

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

	2013	2012
Risk-free interest rate	0.85%	0.98% to 1.19%
Assumed dividend yield	—%	—%
Expected option term	5.3 to 6.0 years	6.0 years
Volatility	42.8% to 44.0%	33.0% to 35.0%

The weighted-average remaining contractual term of outstanding stock option awards at June 30, 2013, was 8.95 years.

Spectrum Brands

Spectrum Brands granted restricted stock unit awards representing approximately 30 thousand and 666 thousand shares during the three and nine months ended June 30, 2013. Of these 666 thousand grants, 22 thousand restricted stock units are time based and vest over a one year period. Of the remaining 644 thousand restricted stock unit grants, 90 thousand are performance based and vest over a one year period, and 554 thousand are performance and time-based and vest over a two year period. The total fair value of the restricted stock units on the dates of the grants was approximately $30.2.

Spectrum Brands granted restricted stock unit awards representing approximately 42 thousand and 759 thousand shares during the three and nine months ended July 1, 2012. Of these 759 thousand grants, 18 thousand restricted stock units are time-based and vest over a one year period, and 42 thousand restricted stock units are time-based and vest over a two year period.. The remaining 699 thousand restricted stock unit grants are performance and time-based and vest over a two year period. The total market value of the restricted stock units on the dates of the grants was approximately $20.8.

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

FGL

On November 2, 2011, FGL’s compensation committee (on behalf of its board of directors) approved a long-term stock-based incentive plan that permits the grant of options to purchase shares of FGL common stock to key employees of FGL. On November 2, 2011, FGL’s compensation committee also approved a dividend equivalent plan that permits holders of these options the right to receive a payment in cash in an amount equal to the ordinary dividends declared and paid or debt service payments to HGI by FGL in respect of the shares underlying the options. As of September 30, 2012, FGL determined that it was probable that the dividend equivalent will vest and recorded a provision of $0.4 for the ratable recognition of such projected liability over the option vesting period for the three months ended June 30, 2013.

FGL granted stock option awards and restricted stock units representing approximately 194 thousand and 52 thousand shares during the nine months ended June 30, 2013. These stock options and restricted shares vest over a period of 3 years and expire on the seventh anniversary of the grant date. The total fair value of the option grant and restricted stock unit grant on the grant date was $0.6 and $2.0, respectively.

FGL granted stock option awards representing approximately 207 thousand shares during the nine months ended July 1, 2012. These stock options vest over a period of 3 years and expire on the seventh anniversary of the grant. The total fair value of the grants on their grant dates was approximately $0.6. On December 31, 2012, FGL elected an alternate settlement for the vested portion of the 2012 share options awards. FGL selected a cash settlement of the vested option awards, which reclassified the plan from an equity plan to a liability plan. FGL recognized additional expense, of approximately $0.6, for the difference between the cash settlement amount and the compensation expense previously recognized. FGL revalued the remaining unvested option awards to fair value and recorded $0.1 compensation expense.

The total compensation cost related to non-vested options and restricted stock units not yet recognized as of June 30, 2013 totaled $4.1 and will be recognized over a weighted-average period of 2.41 years.

The fair value of stock option awards is determined using the Black-Scholes option pricing model. The following assumptions were used in the determination of these grant date fair values using the Black-Scholes option pricing model:

	2013	2012
Risk-free interest rate	0.8%	0.8%
Assumed dividend yield	6%	10%
Expected option term	4.5	4.5
Volatility	27%	35%

EXCO/HGI JV

In May 2013, the EXCO/HGI JV adopted an incentive plan ("Incentive Unit Plan") which allowed for awards to be issued that cover up to 1 million Class B Units. The plan is intended to grant phantom units that correspond to Class B Units prior to the vesting date, in tandem with dividend equivalent rights ("DER") to participate in distributions of the EXCO/HGI JV. The phantom units will vest in three equal annual installments, and will be settled by issuing a Class B Unit in the EXCO/HGI JV. The accumulated distributions related to the DER will be paid to the participant upon the vesting of the related phantom unit. Upon termination of a participant, any unvested phantom units or DER's (including accrued distributions) shall be forfeited.

The agreement includes a call-right on behalf of the EXCO/HGI JV and a put-right on behalf of the participant. The call-right becomes exercisable upon the termination of a participant, and gives the EXCO/HGI JV the option to repurchase any Class B Units held by the participant. The put-right becomes exercisable during the first designated window period after the participant has held the Class B Unit for a period of six months, and gives the participant the option to cause the EXCO/HGI JV to repurchase the participant's Class B Units. The repurchase price under the call-right and put-rights shall be the fair market value as of the date of exercise as determined by the EXCO/HGI JV.

As of June 30, 2013, there were 898 thousand awards available for issuance under the Incentive Unit Plan. The fair value of the awards granted was based on the market value of the limited partner units issued upon formation of the EXCO/HGI JV. A summary of the activity related to the incentive unit plan was as follows:

	Shares	Weighted average grant date fair value per share
Non-vested awards at February 14, 2013	—	$ —
Granted	102	10.00
Non-vested awards at June 30, 2013	102	$ 10.00

ASC 718 requires share-based compensation be recorded with cost classifications consistent with cash compensation. The EXCO/HGI JV uses the full cost method to account for its oil and natural gas properties. As a result, part of the share-based payments are capitalized. During the period from inception to June 30, 2013, an immaterial amount was capitalized as part of the EXCO/HGI JV's oil and natural gas properties. HGI's proportionate share of the EXCO/HGI JV's total share-based compensation on unvested awards was $0.7 as of June 30, 2013, and will be recognized over an average period of 2.9 years.

(14) Income Taxes

For the three and nine months ended June 30, 2013, the Company's effective tax rates of 23.7% and 55.1% were negatively impacted by, pretax losses in the United States and some foreign jurisdictions for which the Company concluded that the tax benefits are not more-likely-than-not realizable, deferred income tax expense due to changes in the tax bases of indefinite lived intangibles that are amortized for tax purposes, but not for book purposes, and tax expense on income in certain other foreign jurisdictions that will not be creditable in the United States. Partially offsetting these factors in the nine months ended June 30, 2013 was the release of U.S. valuation allowances totaling $49.3 in deferred tax assets that Spectrum Brands has determined are more-likely-than-not realizable as a result of a recent acquisition and $81.9 of income resulting from a decrease in the fair value of the equity conversion feature of preferred stock which is not taxable. Net operating loss (“NOL”) and tax credit carryforwards of HGI and Spectrum Brands are subject to full valuation allowances and those of FGL are subject to partial valuation allowances, as the Company concluded all or a portion of the associated tax benefits are not more-likely-than-not realizable. Utilization of NOL and other tax credit carryforwards of HGI, Spectrum Brands and FGL are subject to limitations under Internal Revenue Code (“IRC”) Sections 382 and 383. Such limitations result from ownership changes of more than 50 percentage points over a three-year period.

For the three months ended July 1, 2012, the Company's effective tax rate of 5.0% was lower than the United States Federal statutory rate of 35% and, for the nine months ended July 1, 2012, the Company recorded tax expense at the rate of (356.3)% despite incurring a pretax loss, primarily as a result of: (i) $125.5 of expense in the three month period for an increase in the fair value of the equity conversion feature of preferred stock, for which no tax benefit is available; (ii) pretax losses in the United States and some foreign jurisdictions for which the Company concluded that the tax benefits are not more-likely-than-not realizable; (iii) deferred income tax expense due to changes in the tax bases of indefinite lived intangibles that are amortized for tax purposes, but not for book purposes; (iv) and tax expense on income in certain other foreign jurisdictions that will not be creditable in the United States. Partially offsetting these factors in the nine months ended July 1, 2012 was: (i) a $19.0 release by FGL of valuation allowances on deferred tax assets primarily as a result of revised projections in connection with the regulatory non-approval of a proposed reinsurance transaction; (ii) a $41.0 gain on a contingent purchase price reduction receivable for which no tax provision is necessary; and (iii) a $13.9 release by Spectrum Brands of valuation allowances on deferred tax assets as a result of an acquisition.

The Company recognizes in its consolidated financial statements the impact of a tax position if it concludes that the position is more likely than not sustainable upon audit, based on the technical merits of the position. At June 30, 2013 and September 30, 2012, the Company had $9.0 and $5.9, respectively, of unrecognized tax benefits related to uncertain tax positions. The Company also had approximately $3.8 and $3.6, respectively, of accrued interest and penalties related to the uncertain tax positions at those dates. Interest and penalties related to uncertain tax positions are reported in the financial statements as part of income tax expense. As of June 30, 2013, certain of the Company’s legal entities in various jurisdictions are undergoing income tax audits. The Company cannot predict the ultimate outcome of the examinations; however, it is reasonably possible that during the next 12 months some portion of previously unrecognized tax benefits could be recognized.

(15) Earnings Per Share

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

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

	Three months ended		Nine months ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Net income (loss) attributable to common and participating preferred stockholders	$ 91.6	$ (149.1)	$ 108.1	$ (129.2)
Participating shares at end of period:				
Common shares outstanding	140,576	139,357	140,576	139,357
Preferred shares (as-converted basis)	61,987	62,526	61,987	62,526
Total	202,563	201,883	202,563	201,883
Percentage of income (loss) allocated to:				
Common shares	69.4%	100.0%	69.4%	100.0%
Preferred shares (a)	30.6%	—%	30.6%	—%
Net income (loss) attributable to common shares - basic	$ 63.6	$ (149.1)	$ 75.0	$ (129.2)
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	28.0	—	33.1	—
Reversal of preferred stock dividends and accretion	12.0	—	36.3	—
Reversal of income related to fair value of preferred stock conversion feature	(52.6)	—	(81.9)	—
Net adjustment	(12.6)	—	(12.5)	—
Net income (loss) attributable to common shares - diluted	$ 51.0	$ (149.1)	$ 62.5	$ (129.2)
Weighted-average common shares outstanding - basic	140,292	139,349	139,832	139,351
Dilutive effect of preferred stock	62,413	—	62,555	—
Dilutive effect of unvested restricted stock and restricted stock units	1,853	—	2,231	—
Dilutive effect of stock options	662	—	612	—
Weighted-average shares outstanding - diluted	205,220	139,349	205,230	139,351
Net income (loss) per common share attributable to controlling interest:				
Basic	$ 0.45	$ (1.07)	$ 0.54	$ (0.93)
Diluted	$ 0.25	$ (1.07)	$ 0.30	$ (0.93)

(a) Losses are not allocated to the convertible participating preferred shares since they have no contractual obligation to share in such losses.

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

(16) Commitments and Contingencies

The Company has aggregate reserves for its legal, environmental and regulatory matters of approximately $20.4 at June 30, 2013. These reserves relate primarily to the matters described below. However, based on currently available information, including legal defenses available to the Company, and given the aforementioned reserves and related insurance coverage, the Company does not believe that the outcome of these legal, environmental and regulatory matters will have a material effect on its financial position, results of operations or cash flows.

Legal and Environmental Matters

HGI

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

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

Spectrum Brands

Spectrum Brands has accrued approximately $5.1 for the estimated costs associated with environmental remediation activities at some of its current and former manufacturing sites. Spectrum Brands believes that any additional liability which may result from resolution of these matters in excess of the amounts provided for will not have a material adverse effect on the financial condition, results of operations or cash flows of Spectrum Brands.

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

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, results of operations or cash flows.

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 June 30, 2013, FGL has accrued $5.6 for guaranty fund assessments which is expected to be offset by estimated future premium tax deductions of $5.0.

FGL has received inquiries from a number of state regulatory authorities regarding its use of the U.S. Social Security Administration's Death Master File ("Death Master File") and compliance with state claims practices regulation. To date, FGL has received inquiries from authorities in Maryland, Minnesota and New York. The New York Insurance Department issued a letter and subsequent regulation requiring life insurers doing business in New York to use the Death Master File or similar databases to determine if benefits were payable under life insurance policies, annuities, and retained asset accounts. Legislation requiring insurance companies to use the Death Master File to identify potential claims has recently been enacted in FGL's state of domicile (Maryland) and other states. As a

result of these legislative and regulatory developments, in May 2012 FGL undertook an initiative to use the Death Master File and other publicly available databases to identify persons potentially entitled to benefits under life insurance policies, annuities and retained asset accounts. In July 2012, FGL incurred an $11.0 pre-tax charge, net of reinsurance, to increase reserves to cover potential benefits payable resulting from this ongoing effort. Based on its analysis to date and management's estimate, FGL believes this accrual will cover the reasonably estimated liability arising out of these developments. In addition, FGL has received audit and examination notices from several state agencies responsible for escheatment and unclaimed property regulation in those states. FGL has established a contingency of $2.0, the mid-point of an estimated range of $1.0 to $3.0, related to the external legal costs and potential liabilities of said audits and examinations. Additional costs that cannot be reasonably estimated as of the date of this filing are possible as a result of ongoing regulatory developments and other future requirements related to this matter.

Guarantees

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

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

Unfunded Asset Based Lending Commitments

Through Salus, the Company enters into commitments to extend credit to meet the financing needs of its asset based lending customers upon satisfaction of certain conditions. At June 30, 2013, the notional amount of unfunded, legally binding lending commitments was approximately $150.4, of which $25.8 expires in one year or less, and the remainder expires between one and four years.

Shareholder Contingencies

The Master Fund has pledged all of its shares of the Company's common stock, together with securities of other issuers to secure a certain portfolio financing, which as of the date hereof, constitutes a majority of the outstanding shares of the Company's common stock. The sale or other disposition of a sufficient number of such shares (including any foreclosure on or sale of the Company's shares pledged as collateral) to non-affiliates could cause the Company and its subsidiaries to experience a change of control, which may accelerate certain of the Company's and its subsidiaries' debt instruments and other obligations (including the 7.875% Notes and Preferred Stock) and/or allow certain counterparties to terminate their agreements. Any such sale or disposition may also cause the Company and its subsidiaries to be unable to utilize certain of their net operating loss carryforwards and other tax attributes for income tax purposes.

(17) Other Required Disclosures

Receivables and concentrations of credit risk

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

	June 30, 2013		September 30, 2012	
Trade accounts receivable				
Consumer products	$	511.9	$	357.2
Oil and natural gas		19.9		—
Total trade accounts receivable		531.8		357.2
Contingent purchase price reduction receivable (Note 3)		41.0		41.0
Other receivables		71.1		38.1
Total receivables		643.9		436.3
Less: Allowance for doubtful trade accounts receivable		32.6		21.9
Total receivables, net	$	611.3	$	414.4

Trade receivables held by Spectrum Brands and the EXCO/HGI JV subject the Company to credit risk and are carried at net realizable value.

Spectrum Brands extends credit to its customers based upon an evaluation of the customer’s financial condition and credit history, and generally does not require collateral. Spectrum Brands monitors its customers’ credit and financial condition based on changing economic conditions and makes adjustments to credit policies as required. Provisions for losses on uncollectible consumer products trade receivables are determined based on ongoing evaluations of Spectrum Brands’ receivables, principally on the basis of historical collection experience and evaluations of the risks of nonpayment for a given customer.

The EXCO/HGI JV sells oil and natural gas to various customers and participates with other parties in the drilling, completion and operation of oil and natural gas wells. The EXCO/HGI JV's trade accounts receivable are due from purchasers of oil or natural gas. The EXCO/HGI JV has the right to offset future revenues against unpaid charges related to wells which it operates. Oil and natural gas trade receivables are generally uncollateralized. The allowance for doubtful oil and natural gas accounts receivable was immaterial as of June 30, 2013. In addition, the EXCO/HGI JV has other receivables due from participants in oil and natural gas wells for which it serves as the operator.

Spectrum Brands has a broad range of customers including many large retail outlet chains, one of which accounts for a significant percentage of its sales volume. This customer represented approximately 17.0% and 23.0% of Spectrum Brands’ net sales during the three months ended June 30, 2013 and July 1, 2012, respectively, and approximately 18.0% and 23.0% of Spectrum Brands’ net sales during the nine months ended June 30, 2013 and July 1, 2012, respectively. This customer also represented approximately 10.0% and 13.0% of Spectrum Brands’ trade accounts receivable, net at June 30, 2013 and September 30, 2012, respectively.

Approximately 37.1% and 40.0% of Spectrum Brands’ net sales during the three months ended June 30, 2013 and July 1, 2012, respectively, and 41.4% and 44.0% of Spectrum Brands' net sales during the nine months ended June 30, 2013 and July 1, 2012, respectively, occurred outside the United States. These sales and related receivables are subject to varying degrees of credit, currency, political and economic risk. Spectrum Brands monitors these risks and makes appropriate provisions for collectibility based on an assessment of the risks present.

Inventories

Inventories of Spectrum Brands which are stated at the lower of cost or market, consist of the following:

	June 30, 2013		September 30, 2012	
Raw materials	$	108.3	$	58.5
Work-in-process		53.4		23.4
Finished goods		545.6		370.7
Total inventories	$	707.3	$	452.6

Properties, including oil and natural gas properties, net

Properties, including oil and natural gas properties, net, consist of the following:

	June 30, 2013	September 30, 2012
Oil and natural gas properties (full accounting method)		
Unproved oil and natural gas properties and development costs not being amortized	$ 49.8	$ —
Proved developed and undeveloped oil and natural gas properties	583.1	—
Less: Accumulated depletion	18.0	—
Total oil and natural gas properties, net	614.9	—
Other properties		
Land, buildings and improvements	160.4	93.6
Gas gathering assets	21.6	—
Machinery, equipment and other	431.9	325.7
Construction in progress	42.5	18.4
Total other properties, at cost	656.4	437.7
Less: Accumulated depreciation	271.9	216.1
Total other properties, net	384.5	221.6
Total properties, including oil and natural gas properties, net	$ 999.4	$ 221.6

Shipping and handling costs

Spectrum Brands incurred shipping and handling costs of $67.0 and $183.0 for the three and nine months ended June 30, 2013, respectively, and $48.8 and $148.4 for the three and nine months ended July 1, 2012, respectively. These costs are included in "Selling, acquisition, operating and general expenses" expenses in the accompanying Condensed Consolidated Statements of Operations. Shipping and handling costs include costs incurred with third-party carriers to transport products to customers as well as salaries and overhead costs related to activities to prepare Spectrum Brands' products for shipment from its distribution facilities.

Other assets

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

	June 30, 2013	September 30, 2012
Prepaid expenses and other current assets	$ 90.5	$ 53.1
Debt issuance costs	104.7	50.9
Deferred charges and other assets	76.7	68.6
Total other assets	$ 271.9	$ 172.6

Accounts payable and other current liabilities

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

	June 30, 2013	September 30, 2012
Accounts payable	$ 430.6	$ 325.9
Wages and benefits	103.7	110.9
Income taxes payable	46.9	96.6
Accrued interest	61.3	50.4
Accrued expenses	158.9	25.1
Oil and natural gas revenues and royalties payable	16.7	—
Accrued dividends on Preferred Stock	8.2	8.3
Restructuring and related charges	16.7	6.6
Other	0.4	130.4
Total accounts payable and other current liabilities	$ 843.4	$ 754.2

Other liabilities

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

	June 30, 2013	September 30, 2012
Amounts payable for investment purchases	$ 30.9	$ 206.7
Retained asset account	202.9	203.7
Amounts payable to reinsurers	47.7	32.0
Remittances and items not allocated	37.3	29.5
Oil and natural gas asset-retirement obligations	24.8	—
Other	96.0	128.7
Total other liabilities	$ 439.6	$ 600.6

Asset retirement obligations

The following is a reconciliation of the EXCO/HGI JV's asset retirement obligations for the period from inception to June 30, 2013:

	June 30, 2013
Asset retirement obligations at inception	$ 18.5
Activity during the period:	
Liabilities incurred during the period	0.1
Liabilities settled during the period	—
Adjustment to liability due to acquisitions	5.5
Accretion of discount	0.7
Asset retirement obligations at end of period	24.8
Less: Current portion	1.2
Long-term portion	$ 23.6

Restructuring and related charges

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

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

In 2013 and 2009, Spectrum Brands implemented a series of initiatives to reduce operating costs and to evaluate opportunities to improve its capital structure (the "Global Expense Rationalization Initiatives" and the "Global Cost Reduction Initiatives"). The following table summarizes restructuring and related charges incurred by the Global Expense Rationalization Initiatives and the Global Cost Reduction Initiatives, as well as other initiatives which were not significant, for the three months ended June 30, 2013 and July 1, 2012 and where those charges are classified in the accompanying Condensed Consolidated Statements of Operations:

	Three months ended		Nine months ended					
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012	Charges Since Inception	Expected Future Charges	Total Projected Costs	Expected Completion Date
Initiatives:								
Global Expense Rationalization	$ 7.9	$ —	$ 7.9	$ —	$ 7.9	$ 2.6	$ 10.5	December 31, 2014
Global Cost Reduction	2.9	3.8	14.6	15.1	97.7	6.8	104.5	January 31, 2015
Other	2.4	0.1	5.2	0.8				
	$ 13.2	$ 3.9	$ 27.7	$ 15.9				
Classification:								
Consumer products cost of goods sold	$ 1.0	$ 2.0	$ 4.7	$ 8.3				
Selling, acquisition, operating and general expenses	12.2	1.9	23.0	7.6				
	$ 13.2	$ 3.9	$ 27.7	$ 15.9				

Included in "Other initiatives" in the table above, Spectrum Brands also recorded $2.3 and $5.0 of restructuring and related charges during the three and nine months ended June 30, 2013, related to initiatives implemented by the HHI Business prior to the acquisition by Spectrum Brands in December 2012.

The following table summarizes the remaining accrual balance associated with the initiatives and the activity during the nine months ended June 30, 2013:

	Accrual Balance at September 30, 2012	Provisions	Cash Expenditures	Non-Cash Items	Accrual Balance at June 30, 2013	Expensed as Incurred (a)
Global Expense Rationalization Initiatives:						
Termination benefits	$ —	$ 6.8	$ (0.1)	$ —	$ 6.6	$ 0.8
Other costs	—	—	—	—	—	0.3
	—	6.8	(0.1)	—	6.6	1.1
Global Cost Reduction Initiatives:						
Termination benefits	3.3	5.4	(3.1)	$ —	5.6	1.2
Other costs	1.1	0.2	(1.1)	—	0.3	7.8
	4.4	5.6	(4.2)	—	5.9	9.0
Other initiatives	2.2	1.6	(0.3)	0.7	4.2	3.6
	$ 6.6	$ 14.0	$ (4.6)	$ 0.7	$ 16.7	$ 13.7

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

(18) Related Party Transactions

In November 2012, the Company and Harbinger Capital Partners LLC ("Harbinger Capital"), an affiliate of the Company and the Principal Stockholders, entered into a reciprocal services agreement (the "Services Agreement") with respect to the provision of services to each other going forward. Pursuant to the Services Agreement, the parties each agreed to provide or cause to be provided services to each other, including their respective affiliates and subsidiaries. The services may include providing office space and operational support and each party making available their respective employees to provide services as reasonably requested by the other party, subject to any limitations contained in applicable employment agreements and the terms of the Services Agreement. Each party will pay the other party a service fee for the services provided and such service fee is intended to be the actual cost of the service without profit but including, as applicable, one-time costs, out-of pocket costs, costs of consents, fully loaded hourly rates and any pass through or allocation of payments. The Services Agreement provides that the parties are subject to confidentiality obligations and that the parties will indemnify each other and their related parties against certain costs and liabilities arising out of the performance of the Services Agreement. The Services Agreement will continue in effect until terminated by either party, following thirty (30) days advance written notice. A special committee of the Company's board of directors, comprised of independent directors under the rules of the New York Stock Exchange, advised by independent counsel, determined that it is in the best interests of the Company and its stockholders (not including Harbinger Capital and its affiliates) for the Company to enter into the Services Agreement and recommended to the Company's board directors that they approve entry into the Services Agreement. Following such determination, the Company's board of directors approved the Services Agreement. The Company recognized $1.2 and $2.1 of expenses under these Service Agreement with respect to the three and nine months ended June 30, 2013.

During the nine months ended July 1, 2012, prior to entering into the Services Agreement discussed above, Harbinger Capital provided the Company with certain advisory and consulting services and office space for certain of the Company's employees and officers. The Company reimbursed Harbinger Capital for its out-of-pocket expenses and the cost of advisory and consulting services and office space provided to the Company by Harbinger Capital. In addition, on January 9, 2012, the Company hired certain former personnel of Harbinger Capital effective as of October 1, 2011. The Company reimbursed Harbinger Capital for employment and other costs associated with the above employees to the extent their services related to the Company from October 1, 2011 to the January 9, 2012. The Company recognized $0.7 and $2.0 of expenses under these arrangements with respect to the three and nine months ended July 1, 2012. Such amounts have been approved by a special committee of the Company's board of directors, comprised solely of independent directors under the NYSE rules, which was advised by independent counsel. The Company believes that the amount of expenses recognized is reasonable; however, it does not necessarily represent the costs that would have been incurred by the Company on a stand-alone basis.

In addition, pursuant to the terms of an existing registration rights agreement between the Company and the Principal Stockholders, the Company undertook a registered secondary offering of 23.0 million shares of the Company's common stock owned by the Principal Stockholders. The Company incurred $0.4 related to such offering during the nine months ended June 30, 2013. The Company also provided customary representations, warranties and indemnifications to the underwriters.

(19) Segment Data

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

	Three months ended		Nine months ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Revenues:				
Consumer Products	$ 1,089.8	$ 824.8	$ 2,947.8	$ 2,419.9
Insurance	276.0	186.3	1,022.3	862.6
Energy	37.8	—	54.5	—
Financial Services	10.2	1.7	29.5	2.1
Intersegment elimination	(3.2)	(0.6)	(9.3)	(0.7)
Consolidated revenues	$ 1,410.6	$ 1,012.2	$ 4,044.8	$ 3,283.9
Operating income (loss):				
Consumer Products	$ 115.7	$ 95.2	$ 236.1	$ 234.2
Insurance	78.5	(1.5)	351.5	89.5
Energy	4.8	—	5.3	—
Financial Services	4.1	0.5	16.6	(0.5)
Intersegment elimination	(3.0)	(0.6)	(9.3)	(0.7)
Total segments	200.1	93.6	600.2	322.5
Corporate expenses (a)	(17.5)	(12.1)	(68.2)	(33.3)
Consolidated operating income	182.6	81.5	532.0	289.2
Interest expense	(83.9)	(54.4)	(302.7)	(194.4)
Gain (loss) from the change in the fair value of the equity conversion feature of preferred stock	52.6	(125.5)	81.9	(124.0)
Gain on contingent purchase price reduction	—	—	—	41.0
Other income (expense), net	4.2	(17.5)	(7.7)	(26.0)
Consolidated income (loss) from continuing operations before income taxes	$ 155.5	$ (115.9)	$ 303.5	$ (14.2)

Total assets:	June 30, 2013	September 30, 2012
Consumer Products	$ 5,537.5	$ 3,751.6
Insurance	21,012.6	20,990.3
Energy	685.5	—
Financial Services	316.9	195.1
Intersegment elimination	(340.4)	(182.1)
Total segments	27,212.1	24,754.9
Corporate assets	152.9	445.5
Consolidated total assets	$ 27,365.0	$ 25,200.4

	Nine months ended	
Total cash provided from operating activities:	June 30, 2013	July 1, 2012
Consumer Products	$ (75.6)	$ (61.9)
Insurance	230.9	187.4
Energy	20.8	—
Financial Services	2.6	1.5
Total cash provided from segment operating activities	178.7	127.0
Cash used in corporate operating activities	(84.7)	77.7
Consolidated cash provided from operating activities	$ 94.0	$ 204.7

(a) Included in corporate expenses for the three and nine months ended June 30, 2013 and July 1, 2012, are $0.0 and $0.9, and $0.9 and $1.7, respectively, for start-up costs relating to Front Street and Salus, and $0.9 and $12.0, and $0.3 and $6.9, respectively, relating to acquisitions and other projects.

(20) Consolidating Financial Information

The following schedules present the Company’s consolidating balance sheet information at June 30, 2013 and September 30, 2012, and consolidating statements of operations information for the nine months ended June 30, 2013 and July 1, 2012. These schedules present the individual segments of the Company and their contribution to the consolidated condensed financial statements. Amounts presented will not necessarily be the same as those in the individual financial statements of the Company’s subsidiaries due to adjustments for purchase accounting, income taxes and noncontrolling interests. In addition, some of the Company’s subsidiaries use a classified balance sheet which also leads to differences in amounts reported for certain line items.

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

Harbinger Group Inc. - Condensed Consolidating Balance Sheet Information

June 30, 2013	Consumer Products	Insurance	Energy	Financial Services	Corporate and Other	Eliminations	Total
Assets:							
Investments	$ —	$ 16,298.5	$ —	$ 268.0	$ 34.0	$ —	$ 16,600.5
Investments in subsidiaries and affiliates	—	62.0	—	—	2,088.6	(2,150.6)	—
Affiliated loans and receivables	—	277.2	—	1.2	—	(278.4)	—
Cash and cash equivalents	99.0	1,003.0	16.5	37.2	88.0	—	1,243.7
Receivables, net	542.1	41.0	27.7	0.5	—	—	611.3
Inventories, net	707.3	—	—	—	—	—	707.3
Accrued investment income	—	158.1	—	1.8	—	—	159.9
Reinsurance recoverable	—	2,371.0	—	—	—	—	2,371.0
Deferred tax assets	21.3	253.7	—	—	4.9	—	279.9
Properties, net	355.2	7.0	636.0	0.6	0.6	—	999.4
Goodwill	1,470.2	—	—	—	—	—	1,470.2
Intangibles, including DAC and VOBA, net	2,169.4	480.5	—	—	—	—	2,649.9
Other assets	173.0	60.6	5.3	7.6	25.4	—	271.9
Total assets	$ 5,537.5	$ 21,012.6	$ 685.5	$ 316.9	$ 2,241.5	$ (2,429.0)	$ 27,365.0
Liabilities and Equity:							
Insurance reserves	$ —	$ 19,025.2	$ —	$ —	$ —	$ —	$ 19,025.2
Debt	3,226.1	300.0	274.9	57.5	695.8	—	4,554.3
Accounts payable and other current liabilities	704.3	27.4	31.6	3.3	76.8	—	843.4
Equity conversion feature of preferred stock	—	—	—	—	147.3	—	147.3
Employee benefit obligations	109.3	—	—	—	4.8	—	114.1
Deferred tax liabilities	503.5	—	—	—	4.9	—	508.4
Other liabilities	24.8	373.1	25.7	14.9	1.1	—	439.6
Affiliated debt and payables	—	1.2	103.4	173.8	—	(278.4)	—
Total liabilities	4,568.0	19,726.9	435.6	249.5	930.7	(278.4)	25,632.3
Temporary equity	—	—	—	—	325.4	—	325.4
Total stockholders' equity	547.2	1,285.7	249.9	67.8	985.4	(2,150.6)	985.4
Noncontrolling interests	422.3	—	—	(0.4)	—	—	421.9
Total permanent equity	969.5	1,285.7	249.9	67.4	985.4	(2,150.6)	1,407.3
Total liabilities and equity	$ 5,537.5	$ 21,012.6	$ 685.5	$ 316.9	$ 2,241.5	$ (2,429.0)	$ 27,365.0

September 30, 2012	Consumer Products	Insurance	Energy	Financial Services	Corporate and Other	Eliminations	Total
Assets:							
Investments	$ —	$ 16,556.7	$ —	$ 180.1	$ 181.6	$ —	$ 16,918.4
Investment in subsidiaries and affiliates	—	32.0	—	—	1,858.2	(1,890.2)	—
Affiliated loans and receivables	—	150.1	—	—	—	(150.1)	—
Cash and cash equivalents	158.0	1,054.6	—	12.4	245.7	—	1,470.7
Receivables, net	373.4	41.0	—	—	—	—	414.4
Inventories, net	452.6	—	—	—	—	—	452.6
Accrued investment income	—	191.6	—	—	—	—	191.6
Reinsurance recoverable	—	2,363.1	—	—	—	—	2,363.1
Deferred tax assets	28.2	279.6	—	—	4.9	—	312.7
Properties, net	214.0	6.9	—	0.4	0.3	—	221.6
Goodwill	694.2	—	—	—	—	—	694.2
Intangibles, including DAC and VOBA, net	1,715.0	273.5	—	—	—	—	1,988.5
Other assets	116.2	41.2	—	2.2	13.0	—	172.6
Total assets	$ 3,751.6	$ 20,990.3	$ —	$ 195.1	$ 2,303.7	$ (2,040.3)	$ 25,200.4
Liabilities and Equity:							
Insurance reserves	$ —	$ 19,051.0	$ —	$ —	$ —	$ —	$ 19,051.0
Debt	1,669.3	—	—	—	497.7	—	2,167.0
Accounts payable and other current liabilities	594.2	93.2	—	—	66.8	—	754.2
Equity conversion feature of preferred stock	—	—	—	—	232.0	—	232.0
Employee benefit obligations	90.0	—	—	—	5.1	—	95.1
Deferred tax liabilities	377.5	—	—	—	4.9	—	382.4
Other liabilities	31.6	555.3	—	13.3	0.4	—	600.6
Affiliated debt and payables	—	—	—	150.1	—	(150.1)	—
Total liabilities	2,762.6	19,699.5	—	163.4	806.9	(150.1)	23,282.3
Temporary equity	—	—	—	—	319.2	—	319.2
Total stockholders' equity	567.7	1,290.8	—	31.7	1,177.6	(1,890.2)	1,177.6
Noncontrolling interests	421.3	—	—	—	—	—	421.3
Total permanent equity	989.0	1,290.8	—	31.7	1,177.6	(1,890.2)	1,598.9
Total liabilities and equity	$ 3,751.6	$ 20,990.3	$ —	$ 195.1	$ 2,303.7	$ (2,040.3)	$ 25,200.4

Harbinger Group Inc. - Condensed Consolidating Statements of Operations Information

Nine months ended June 30, 2013	Consumer Products	Insurance	Energy	Financial Services	Corporate and Other	Eliminations	Total
Revenues:							
Net consumer product sales	$ 2,947.8	$ —	$ —	$ —	$ —	$ —	$ 2,947.8
Oil and natural gas	—	—	54.5	—	—	—	54.5
Insurance premiums	—	46.9	—	—	—	—	46.9
Net investment income	—	519.5	—	27.8	—	(7.6)	539.7
Net investment gains (losses)	—	411.5	—	—	—	—	411.5
Insurance and investment product fees and other	—	44.4	—	1.7	—	(1.7)	44.4
Total revenues	2,947.8	1,022.3	54.5	29.5	—	(9.3)	4,044.8
Operating costs and expenses:							
Consumer products cost of goods sold	1,954.0	—	—	—	—	—	1,954.0
Oil and natural gas direct operating costs	—	—	26.9	—	—	—	26.9
Benefits and other changes in policy reserves	—	431.7	—	—	—	—	431.7
Selling, acquisition, operating and general expenses	700.2	76.0	22.3	12.9	68.2	—	879.6
Amortization of intangibles	57.5	163.1	—	—	—	—	220.6
Total operating costs and expenses	2,711.7	670.8	49.2	12.9	68.2	—	3,512.8
Operating income	236.1	351.5	5.3	16.6	(68.2)	(9.3)	532.0
Equity in net income (losses) of subsidiaries	—	—	—	—	235.5	(235.5)	—
Interest expense	(191.8)	(5.9)	(2.8)	—	(102.2)	—	(302.7)
Affiliated interest income	—	3.4	(3.4)	(6.6)	—	6.6	—
Gain (loss) from the change in the fair value of the equity conversion feature of preferred stock	—	—	—	—	81.9	—	81.9
Other income (expense), net	(7.9)	0.2	0.8	(0.9)	0.1	—	(7.7)
(Loss) income from continuing operations before income taxes	36.4	349.2	(0.1)	9.1	147.1	(238.2)	303.5
Income tax expense (benefit)	54.9	112.1	—	0.2	—	—	167.2
Net income (loss)	(18.5)	237.1	(0.1)	8.9	147.1	(238.2)	136.3
Less: Net income (loss) attributable to noncontrolling interest	(8.5)	—	—	0.4	—	—	(8.1)
Net income (loss) attributable to controlling interest	(10.0)	237.1	(0.1)	8.5	147.1	(238.2)	144.4
Less: Preferred stock dividends and accretion	—	—	—	—	36.3	—	36.3
Net income (loss) attributable to common and participating preferred stockholders	$ (10.0)	$ 237.1	$ (0.1)	$ 8.5	$ 110.8	$ (238.2)	$ 108.1

Nine months ended July 1, 2012	Consumer Products	Insurance	Energy	Financial Services	Corporate and Other	Eliminations	Total
Revenues:							
Net consumer product sales	$ 2,419.9	$ —	$ —	$ —	$ —	$ —	$ 2,419.9
Oil and natural gas	—	—	—	—	—	—	—
Insurance premiums	—	42.2	—	—	—	—	42.2
Net investment income	—	537.6	—	2.1	—	(0.7)	539.0
Net investment gains (losses)	—	254.6	—	—	—	—	254.6
Insurance and investment product fees and other	—	28.2	—	—	—	—	28.2
Total revenues	2,419.9	862.6	—	2.1	—	(0.7)	3,283.9
Operating costs and expenses:							
Consumer products cost of goods sold	1,584.1	—	—	—	—	—	1,584.1
Benefits and other changes in policy reserves	—	559.7	—	—	—	—	559.7
Selling, acquisition, operating and general expenses	555.1	101.4	—	2.6	33.3	—	692.4
Amortization of intangibles	46.5	112.0	—	—	—	—	158.5
Total operating costs and expenses	2,185.7	773.1	—	2.6	33.3	—	2,994.7
Operating income	234.2	89.5	—	(0.5)	(33.3)	(0.7)	289.2
Equity in net income (losses) of subsidiaries	—	—	—	—	139.9	(139.9)	—
Interest expense	(150.1)	(1.9)	—	—	(42.4)	—	(194.4)
Affiliated interest income	—	—	—	(0.7)	—	0.7	—
Gain (loss) from the change in the fair value of the equity conversion feature of preferred stock	—	—	—	—	(124.0)	—	(124.0)
Gain on contingent purchase price reduction	—	41.0	—	—	—	—	41.0
Other income (expense), net	(2.2)	—	—	—	(23.8)	—	(26.0)
Income (loss) from continuing operations before income taxes	81.9	128.6	—	(1.2)	(83.6)	(139.9)	(14.2)
Income tax expense (benefit)	38.8	11.8	—	—	—	—	50.6
Net income (loss)	43.1	116.8	—	(1.2)	(83.6)	(139.9)	(64.8)
Less: Net income (loss) attributable to noncontrolling interest	18.8	—	—	—	—	—	18.8
Net income (loss) attributable to controlling interest	24.3	116.8	—	(1.2)	(83.6)	(139.9)	(83.6)
Less: Preferred stock dividends and accretion	—	—	—	—	45.6	—	45.6
Net income (loss) attributable to common and participating preferred stockholders	$ 24.3	$ 116.8	$ —	$ (1.2)	$ (129.2)	$ (139.9)	$ (129.2)

(21) Subsequent Event

HGI Issuance of $225.0 aggregate principal amount 7.875% Senior Secured Notes due 2019

On July 18, 2013, the Company entered into a Purchase Agreement, as amended by the Purchase Agreement Amendment dated as of July 19, 2013. In connection with the Purchase Agreement, on July 23, 2013, the Company issued $225.0 aggregate principal amount of 7.875% senior secured notes due 2019 (the "New Notes"). The New Notes were issued under the same indenture governing the 7.875% Notes by and between the Company and Wells Fargo Bank, National Association, a national banking association, as trustee. The New Notes were priced at 101.50% of par plus accrued interest from July 15, 2013.

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

Introduction

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Harbinger Group Inc. ("HGI," "we," "us," "our" and, collectively with its subsidiaries, the "Company") should be read in conjunction with our unaudited condensed consolidated financial statements included elsewhere in this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" of HGI which was included with our annual consolidated financial statements filed on Form 10-K with the Securities and Exchange Commission (the "SEC") on November 27, 2012 (the "Form 10-K"). Certain statements we make under this Item 2 constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. See "Forward-Looking Statements" in "Part II — Other Information" of this report. You should consider our forward-looking statements in light of our unaudited condensed consolidated financial statements, related notes, and other financial information appearing elsewhere in this report, the Form 10-K and our other filings with the SEC. In this Quarterly Report on Form 10-Q we refer to the three months ended June 30, 2013 as the "Fiscal 2013 Quarter", the nine months ended June 30, 2013 as the "Fiscal 2013 Nine Months", the three month ended July 1, 2012 as the "Fiscal 2012 Quarter" and the nine months ended July 1, 2012 as the "Fiscal 2012 Nine Months."

HGI Overview

We are a holding company and our principal operations are conducted through subsidiaries that offer life insurance and annuity products, financing and asset management, branded consumer products such as batteries, small appliances, pet supplies, home and garden control products, personal care products and hardware and home improvement products. We also hold oil and natural gas properties through an equity investment. Our outstanding common stock is 74.2% owned by Harbinger Capital Partners Master Fund I, Ltd. (the "Master Fund"), Global Opportunities Breakaway Ltd. and Harbinger Capital Partners Special Situations Fund, L.P. (together, the "Principal Stockholders"), not giving effect to the conversion rights of the Company's Series A Participating Convertible Preferred Stock or the Series A-2 Participating Convertible Preferred Stock (together, the "Preferred Stock").

We are focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries and growing acquired businesses. We view the acquisition of Spectrum Brands Holdings, Inc. ("Spectrum Brands") and Fidelity & Guaranty Life Holdings, Inc. ("FGL," formerly Old Mutual U.S. Life Holdings, Inc.), in our 2011 fiscal year as our first steps in the implementation of that strategy. In addition to FGL's asset management activities, HGI has expanded its asset management business by forming Five Island Asset Management, LLC ("Five Island") and Salus Capital Partners, LLC ("Salus"), its subsidiary engaged in providing secured asset-based loans to entities across a variety of industries. Lastly, in February 2013 we finalized a joint venture with EXCO Resources, Inc. ("EXCO") to create a private oil and natural gas joint venture (the "EXCO/HGI JV"), through our wholly-owned subsidiary, HGI Energy Holdings, LLC ("HGI Energy"). In addition to our intention to acquire controlling interests, we may also from time to time make investments in debt instruments, acquire minority equity interests in companies and expand our operating businesses.

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

We currently operate in four segments: Consumer Products through Spectrum Brands, Insurance through FGL, Energy through HGI Energy, and Financial Services (currently, primarily the operations of Salus).

Consumer Products Segment

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

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

Insurance Segment

Through FGL, we are a provider of annuity and life insurance products to the middle and upper-middle income markets in the United States. Based in Baltimore, Maryland, FGL operates in the United States through its subsidiaries Fidelity & Guaranty Life Insurance Company ("FGL Insurance") and Fidelity & Guaranty Life Insurance Company of New York ("FGL NY Insurance"). FGL’s principal products are deferred annuities (including fixed indexed annuity ("FIA") contracts), immediate annuities, and life insurance products, which are sold through a network of approximately 200 independent marketing organizations ("IMOs"), representing approximately 19,000 independent agents.

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

Energy Segment

On February 14, 2013, EXCO and HGI formed the EXCO/HGI JV to own and operate conventional oil and natural gas properties. EXCO contributed to the EXCO/HGI JV its conventional assets in and above the Canyon Sand formation in the Permian Basin in West Texas as well as in the Holly, Waskom, Danville and Vernon fields in East Texas and North Louisiana.

The EXCO/HGI JV acquired the conventional oil and natural gas assets from EXCO for approximately $725.0 million of total consideration, representing HGI's effective equity interest of $372.5 million, $127.5 million in properties contributed by EXCO, in each case before giving effect to the closing adjustments related to the July 1, 2012 effective date, and approximately $225.0 million of indebtedness borrowed by the EXCO/HGI JV from a revolving credit agreement entered into by the EXCO/HGI JV ("EXCO/HGI JV Credit Agreement"). In exchange for the contribution of its assets, EXCO received cash consideration of $574.8 million, a 24.5% limited partner interest in the EXCO/HGI JV and a 50% interest in the general partner of the EXCO/HGI JV. HGI and its subsidiaries contributed $349.8 million cash, after customary closing adjustments, and received a 73.5% limited partner interest in the EXCO/HGI JV and a 50% interest in the general partner. After giving effect to the 2% general partner interest in the EXCO/HGI JV, EXCO and HGI own an economic interest in the Partnership of 25.5% and 74.5% respectively.

The primary strategy of the EXCO/HGI JV is to continue the efficient production from, and development of, its existing asset base. Given the inherent decline in the production potential of its existing assets base, the EXCO/HGI JV also intends to pursue acquisitions of predominantly-producing long-life conventional oil and natural gas properties. Consistent with this strategy, on February 14, 2013, the EXCO/HGI JV entered into an agreement to acquire oil and natural gas assets in the Danville, Waskom and Holly fields in East Texas and North Louisiana from an affiliate of BG Group plc ("BG Group") for $132.5 million, subject to customary closing adjustments. These properties represent an incremental working interest in properties that EXCO contributed to the EXCO/HGI JV. This transaction was funded using funds drawn from the EXCO/HGI JV Credit Agreement.

The EXCO/HGI JV believes that this strategy will allow it to generate and to opportunistically add incremental cash flows. The board of the EXCO/HGI JV declared a $5.0 million distribution in the Fiscal 2013 Quarter, of which $3.7 million was received by HGI Energy. Subsequent to the end of the quarter, the EXCO/HGI JV declared a further distribution of $10.0 million payable on August 15, 2013, of which our proportionate share will be $7.5 million. The EXCO/HGI JV plans to continue to make quarterly distributions of free cash flow available after capital expenditures and debt service. The EXCO/HGI JV plans to utilize derivative instruments to protect the cash flow potential of its assets and manage exposure to fluctuations in oil and natural gas prices.

Financial Services Segment

Our Financial Services segment includes the activities of our asset-based lender, Salus, and our newly formed asset manager, Five Island.

Through Salus, we are a provider of secured loans to the middle market across a variety of industries. Salus finances loan commitments that typically range from $5 to $50 million with the ability to lead and agent larger transactions. The Salus platform also serves as an asset manager to certain institutional investors such as community and regional

banks, insurance companies, family offices, private equity funds and hedge funds who may lack the infrastructure and dedicated competency within senior secured lending. As of June 30, 2013, Salus has funded loans totaling $271.1 million aggregate principal amount outstanding. The Salus loans are funded through capital commitments from HGI and funds committed by FGL as co-lender.

Salus provides secured loans to the middle market. Salus predominantly makes loans based on asset-based finance, which is a financing tool where the decision to lend is primarily based on the value of the borrowers' collateral. Collateral is viewed as the primary source of repayment, while the borrowers' creditworthiness is viewed as secondary source of repayment. As a result, asset-based finance emphasizes the monitoring of the collateral that secures the asset-based loan. Salus focuses its credit analysis on the value of accounts receivable and inventory (or other assets) and estimates how much liquidity it can provide against those assets. Salus establishes a loan structure and collateral monitoring process that is continuous and focused on the collateral, significantly reducing the risk of loss inherent in delayed intervention. As of June 30, 2013, none of these loans were delinquent.

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

Highlights for the Fiscal Quarter and Nine Months Ended June 30, 2013

Significant Transactions and Activity

During the fiscal quarter and nine months ended June 30, 2013, we made significant progress in our business strategy to reduce our cost of capital, increase our investor base, grow our existing business, and diversify the businesses in which we operate. The most significant of these steps include the following:

HGI

- In December 2012, we issued $700.0 million aggregate principal amount 7.875% Senior Secured Notes due 2019 (the "7.875% Notes") and used part of the proceeds of the offering to accept for purchase $498.0 million aggregate principal amount of our 10.625% Senior Secured Notes due 2015 (the "10.625% Notes") pursuant to a tender offer (the "Tender Offer") for the 10.625% Notes. The remaining 10.625% Notes were redeemed by the trustee on January 23, 2013. The remainder of the proceeds of the issuance of the 7.875% Notes was used for working capital by the Company and its subsidiaries and for general corporate purposes, including the financing of future acquisitions and businesses.
- In December 2012, we closed a secondary offering, in which the Principal Stockholders offered 20.0 million shares of common stock at a price to the public of $7.50 per share, increasing our public float and broadening our shareholder base. In addition, in January 2013, the underwriters exercised their option to purchase an additional 3.0 million shares of common stock from the Principal Stockholders. We did not receive any proceeds from the sale of shares in this offering.
- In February 2013, we finalized a joint venture with EXCO to create the EXCO/HGI JV. The EXCO/HGI JV purchased and will operate certain of EXCO's producing U.S. conventional oil and natural gas assets in the Permian Basin, East Texas and North Louisiana.

Consumer Products segment

- In December 2012, Spectrum Brands acquired the residential hardware and home improvement business (the "HHI Business") from Stanley Black & Decker, Inc. ("Stanley Black & Decker") (the "Hardware Acquisition"). The Hardware Acquisition is expected to enhance Spectrum Brand's top-line growth, margins and free cash flow profile, while providing added scale, greater product diversity and attractive cross-selling opportunities.
- In December 2012, Spectrum Brands assumed from Spectrum Brands Escrow Corp. $520.0 million aggregate principal amount of 6.375% Senior Notes due 2020 (the "6.375% Notes") and $570.0 million aggregate principal amount of 6.625% Senior Notes due 2022 (the "6.625% Notes"), in connection with the Hardware Acquisition. Spectrum Brands used the net proceeds from the offering to fund a portion of the purchase price and related fees and expenses for the Hardware Acquisition. Spectrum Brands financed the remaining portion of the Hardware Acquisition with a new $800.0 million term loan facility, of which $100.0 million is in Canadian dollar equivalents (the "Term Loan"). A portion of the Term Loan proceeds were also used to refinance the former term loan facility, maturing June 17, 2016, which had an aggregate amount outstanding of $370.2 million prior to refinancing.
- On April 8, 2013, the Company completed the acquisition of certain assets of Tong Lung Metal Industry Co. Ltd., a Taiwan Corporation ("TLM Taiwan"), completing the Hardware Acquisition. TLM Taiwan is involved in the production of residential locksets.

Insurance segment

- In March 2013, FGL issued $300.0 million aggregate principal amount of their 6.375% senior notes, due April 1, 2021, at par value (the "FGL Notes".) FGL used a portion of the net proceeds from the issuance to pay a special dividend to HGI and expects to use the remainder for general corporate purposes, to support the growth of its subsidiary life insurance company.
- In December 2012, FGL entered into a coinsurance agreement (the "Reinsurance Agreement") with Front Street Re (Cayman) Ltd. ("Front Street Cayman"), also an indirect subsidiary of the Company. Pursuant to the Reinsurance Agreement, Front Street Cayman has reinsured approximately 10%, or approximately $1.5 billion of FGL’s policy liabilities, on a funds-withheld basis.

Energy segment

- Immediately following closing of the EXCO/HGI JV, the EXCO/HGI JV entered into an agreement to purchase all of the shallow Cotton Valley assets from an affiliate of BG Group, for $130.9 million, after customary closing adjustments. The transaction closed on March 5, 2013 and was funded with borrowings from the EXCO/HGI JV Credit Agreement. In connection with the acquisition of the properties from BG Group, the EXCO/HGI JV received an increase to the borrowing base to $470.0 million under the EXCO/HGI JV Credit Agreement.

Financial Services segment

- Salus originated $586.4 million of new asset-backed loan commitments in the Fiscal 2013 Quarter and had $271.1 million of loans outstanding as of June 30, 2013.
- Revenue generated from the operations of Salus and Five Island together contributed approximately $10.2 million to our consolidated revenues for the Fiscal 2013 Quarter, gross of revenue from affiliated entities. The Financial Services segment had net income for the Fiscal 2013 Quarter of $2 million.
- In connection with the Reinsurance Agreement, Front Street Cayman, FGL and an indirect subsidiary of the Company, Five Island, also entered into an investment management agreement, pursuant to which Five Island will manage the assets securing Front Street Cayman’s reinsurance obligations under the Reinsurance Agreement, which assets are held by FGL in a segregated account. The assets in the segregated account will be invested in accordance with FGL’s existing guidelines.

Key financial highlights

- Net income attributable to common and participating preferred stockholders increased to $91.6 million, or $0.45 per common share attributable to controlling interest ($0.25 diluted), compared to a net loss attributable to common and participating preferred stockholders of $149.1 million, or $1.07 per common share attributable to controlling interest ($1.07 diluted), in the Fiscal 2012 Quarter.
- Our Fiscal 2013 third quarter results include the following items:
    - $20.4 million of realized investment gains in our Insurance segment; and
    - a $52.6 million gain from the change in the fair value of the equity conversion feature of preferred stock which was the result of an 8.7% decrease in our stock price from $8.26 to $7.54 per share during the Fiscal 2013 Quarter; offset by,
    - tax expense of $36.8 million resulting in an effective tax rate of 23.7% which was primarily driven by pretax losses in the United States and some foreign jurisdictions for which the Company has established full valuation allowances against the benefit, deferred income tax expense due to changes in the tax bases of indefinite lived intangibles that are amortized for tax purposes, but not for book purposes, and tax expense on income in certain other foreign jurisdictions that will not be creditable in the United States.
- We ended the quarter with corporate cash and investments of approximately $122.0 million (primarily held at HGI and HGI Funding LLC). Subsequent to the end of the quarter we issued $225.0 million aggregate principal amount of additional 7.875% Notes (the "New Notes".)
- Our Consumer Product's operating profit for the Fiscal 2013 Quarter increased $20.5 million, or 21.5%, to $115.7 million from $95.2 million for the Fiscal 2012 Quarter. Our Consumer Products segment's adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA") increased by $3.5 million, or 1.9%, to $188.5 million versus the Fiscal 2012 Quarter primarily due to higher sales, synergy benefits and cost reduction initiatives. Adjusted EBITDA margin represented 17.3% of sales as compared to 17.16% in the Fiscal 2012 Quarter. See Non-GAAP measures below for more details.
- Our Insurance segment's operating profit for the Fiscal 2013 Quarter increased $80.0 million, to $78.5 million from an operating loss of $1.5 million for the Fiscal 2012 Quarter. Our Insurance segment's adjusted operating income ("Insurance AOI") increased by $20.3 million, or 597.1%, to $23.7 million versus the Fiscal 2012 Quarter, primarily as a result of the non-recurrence of an $11.0 million charge for an estimated unreported death claims liability, net of reinsurance, recorded during the Fiscal 2012 Quarter. See Non-GAAP measures below for more details.

- Through the nine months ended June 30, 2013, we received dividends of approximately $108.7 million from our respective subsidiaries, including $93.0 million, $15.0 million and $0.7 million from FGL, Spectrum Brands and Salus, respectively. The FGL dividend of $93.0 million includes the special dividend of $73.0 million paid out of the proceeds from the $300.0 million aggregate principal amount of the FGL Notes.

Results of Operations

Fiscal Quarter and Fiscal Nine Months Ended June 30, 2013 Compared to Fiscal Quarter and Fiscal Nine Months Ended July 1, 2012

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

	Fiscal Quarter			Fiscal Nine Months		
	2013	2012	Increase / (Decrease)	2013	2012	Increase / (Decrease)
Revenues:						
Consumer Products	$ 1,089.8	$ 824.8	$ 265.0	$ 2,947.8	$ 2,419.9	$ 527.9
Insurance	276.0	186.3	89.7	1,022.3	862.6	159.7
Energy	37.8	—	37.8	54.5	—	54.5
Financial Services	10.2	1.7	8.5	29.5	2.1	27.4
Intersegment elimination	(3.2)	(0.6)	(2.6)	(9.3)	(0.7)	(8.6)
Consolidated revenues	$ 1,410.6	$ 1,012.2	$ 398.4	$ 4,044.8	$ 3,283.9	$ 760.9
Operating income (loss):						
Consumer Products	$ 115.7	$ 95.2	$ 20.5	$ 236.1	$ 234.2	$ 1.9
Insurance	78.5	(1.5)	80.0	351.5	89.5	262.0
Energy	4.8	—	4.8	5.3	—	5.3
Financial Services	4.1	0.5	3.6	16.6	(0.5)	17.1
Intersegment elimination	(3.0)	(0.6)	(2.4)	(9.3)	(0.7)	(8.6)
Total segments	200.1	93.6	106.5	600.2	322.5	277.7
Corporate expenses	(17.5)	(12.1)	(5.4)	(68.2)	(33.3)	(34.9)
Consolidated operating income	182.6	81.5	101.1	532.0	289.2	242.8
Interest expense	(83.9)	(54.4)	(29.5)	(302.7)	(194.4)	(108.3)
Gain (loss) from the change in the fair value of the equity conversion feature of preferred stock	52.6	(125.5)	178.1	81.9	(124.0)	205.9
Gain on contingent purchase price reduction	—	—	—	—	41.0	(41.0)
Other income (expense), net	4.2	(17.5)	21.7	(7.7)	(26.0)	18.3
Consolidated income (loss) from continuing operations before income taxes	155.5	(115.9)	271.4	303.5	(14.2)	317.7
Income tax expense (benefit)	36.8	(5.8)	42.6	167.2	50.6	116.6
Net income (loss)	118.7	(110.1)	228.8	136.3	(64.8)	201.1
Less: Net income (loss) attributable to noncontrolling interest	15.1	25.0	(9.9)	(8.1)	18.8	(26.9)
Net income (loss) attributable to controlling interest	103.6	(135.1)	238.7	144.4	(83.6)	228.0
Less: Preferred stock dividends and accretion	12.0	14.0	(2.0)	36.3	45.6	(9.3)
Net income (loss) attributable to common and participating preferred stockholders	$ 91.6	$ (149.1)	$ 240.7	$ 108.1	$ (129.2)	$ 237.3

Revenues. Revenues for the Fiscal 2013 Quarter increased $398.4 million, or 39.4%, to $1,410.6 million from $1,012.2 million for the Fiscal 2012 Quarter. The increase was primarily driven by the Hardware Acquisition in our Consumer Products Segment, and to a lesser extent, realized and unrealized gains on derivative instruments based upon bond and equity market indices used to hedge against promised returns on our Insurance segment's FIA products included within Benefits and changes in other changes policy reserve expense, contributions from the newly formed EXCO/HGI JV, and new business activity in our Financial Services segment.

Revenues for the Fiscal 2013 Nine Months increased $760.9 million, or 23.2%, to $4,044.8 million from $3,283.9 million for the Fiscal 2012 Nine Months. The increase was primarily driven by the Hardware Acquisition in our Consumer Products segment, realized gains on the sales of fixed maturity securities in our Insurance segment to

utilize certain tax benefits and a change in investment strategy to shorten the duration of the portfolio, the EXCO/HGI JV formed in the Fiscal 2013 Nine Months, and new business activity in our Energy and Financial Services segments.

Operating Profit. Operating profit for the Fiscal 2013 Quarter increased $101.1 million, or 124.0%, to $182.6 million from $81.5 million for the Fiscal 2012 Quarter. The increase was primarily the result of favorable investment gains in our Insurance Segment, the Hardware Acquisition in our Consumer Products segment, and new business activity in our Energy and Financial Services segments. The increase was offset in part by increased salary and overhead costs in our Corporate segment to support growth in the business.

Operating profit for the Fiscal 2013 Nine Months increased $242.8 million, or 84.0%, to $532.0 million from $289.2 million for the Fiscal 2012 Nine Months. The increase was primarily the result of revenue increases described above, favorable investment gains, positive immediate annuity mortality, positive FIA derivative fair value movements in our Insurance segment and new business activity in our Energy and Financial Services segment. The increase was offset in part by increased bonus and headcount in our Corporate segment to support growth in the business.

Interest Expense. Interest expense increased $29.5 million to $83.9 million for the Fiscal 2013 Quarter from $54.4 million for the Fiscal 2012 Quarter. The increase is attributable to the higher levels of indebtedness as compared to the prior fiscal quarter.

Interest expense increased $108.3 million to $302.7 million for the Fiscal 2013 Nine Months from $194.4 million for the Fiscal 2012 Nine Months. The increase is principally due to $58.9 million of fees incurred by HGI related to the issuance of the 7.875% Notes, the extinguishment of the 10.625% Notes, and $29.0 million of costs incurred by Spectrum Brands associated with the financing of the Hardware Acquisition. The fees incurred by HGI consisted of $45.9 million cash charges for fees and expenses, and $13.0 of non-cash charges for the write down of debt issuance costs and net unamortized discount related to the extinguishment of the 10.625% Notes. The $29.0 million of costs incurred by Spectrum Brands relating to the Hardware Acquisition financing included: (i) $13.0 million of cash costs related to unused bridge financing commitments; (ii) $6.0 million of cash costs related to interest on the 6.375% Notes and the 6.625% Notes incurred while in escrow prior to the closing of the acquisition; (iii) $2.0 million of cash costs related to a ticking fee on the term loan facility incurred prior to the closing of the transaction; (iv) $3.0 million related to cash costs for underwriting, legal, accounting and other fees; and (v) $5.0 million of non-cash costs for the write off of unamortized deferred financing fees and original issue discount on the former term loan facility that was refinanced in connection with the acquisition. The remainder of the increase is directly attributable to the higher levels of indebtedness as compared to the prior year.

Gain (loss) from the change in the fair value of the equity conversion feature of preferred stock. The gain from the change in the fair value of the equity conversion feature of the preferred stock of $52.6 million for the Fiscal 2013 Quarter was principally due to a decrease in the market price of our common stock from $8.26 to $7.54 per share during the Fiscal 2013 Quarter. During the Fiscal 2012 Quarter the loss from the change in the fair value of the equity conversion feature of the preferred stock of $125.5 million was due to an increase in the market price of our common stock from $5.18 to $7.79 per share during the Fiscal 2012 Quarter.

The gain from the change in the fair value of the equity conversion feature of the preferred stock of $81.9 million for the Fiscal 2013 Nine Months was principally due to a decrease in the market price of our common stock from $8.43 to $7.54 per share during the Fiscal 2013 Nine Months. During the Fiscal 2012 Nine Months the loss from the change in the fair value of the equity conversion feature of the preferred stock of $124.0 million due to an increase in the market price of our common stock from $5.07 to $7.79 per share during the Fiscal 2012 Nine Months.

Gain on contingent purchase price reduction. A gain of $41.0 million was recognized in the Fiscal 2012 Nine Months which reflects the estimated fair value of a contingent purchase price reduction receivable (see Note 3, Acquisitions, to our Condensed Consolidated Financial Statements.)

Other income (expense), net. Other income (expense), net decreased $21.7 million to $4.2 million for the Fiscal 2013 Quarter from $17.5 million for the Fiscal 2012 Quarter. The decrease was due to a decrease in unrealized losses on trading securities held principally for investing purposes at HGI, and realized and unrealized gains on oil and gas derivatives held by the EXCO/HGI JV.

Other income (expense), net decreased $18.3 million to $7.7 million for the Fiscal 2013 Nine Months from $26.0 million for the Fiscal 2012 Nine Months. The decrease resulted from decreased losses on trading securities held principally for investing purposes at HGI, and as a result of realized and unrealized gains on oil and natural gas derivatives noted above.

Income Taxes.

For the Fiscal 2013 Quarter and Fiscal 2013 Nine Months ended June 30, 2013, our effective tax rates of 23.7% and 55.1% were negatively impacted by pretax losses in the United States and some foreign jurisdictions for which we concluded that the tax benefits are not more-likely-than-not realizable, deferred income tax expense due to changes in the tax bases of indefinite lived intangibles that are amortized for tax purposes, but not for book purposes, and tax expense on income in certain other foreign jurisdictions that will not be creditable in the United States. Partially offsetting these factors in the Fiscal 2013 Nine Months was the release of U.S. valuation allowances of $49.3 million on deferred tax assets that Spectrum Brands has determined are more-likely-than-not realizable as a result of a recent acquisition and $82.0 million of income resulting from a decrease in the fair value of the equity conversion feature of preferred stock, for which is not taxable. Net operating loss (“NOL”) and tax credit carryforwards of HGI and Spectrum Brands are subject to full valuation allowances and those of FGL are subject to partial valuation allowances, as we concluded all or a portion of the associated tax benefits are not more-likely-than-not realizable. Utilization of NOL and other tax credit carryforwards of HGI, Spectrum Brands and FGL are subject to limitations under Internal Revenue Code (“IRC”) Sections 382 and 383. Such limitations result from ownership changes of more than 50 percentage points over a three-year period.

For the Fiscal 2012 Quarter our effective tax rate of 5.0% was lower than the United States Federal statutory rate of 35% and, for the Fiscal 2012 Nine Months ended July 1, 2012, we recorded tax expense at the rate of (356.3)% despite incurring a pretax loss, primarily as a result of: (i) $125.5 million of expense recorded in the Fiscal 2012 Quarter resulting from an increase in fair value of the equity conversion feature of preferred stock, for which no tax benefit is available; (ii) pretax losses in the United States and some foreign jurisdictions for which we concluded that the tax benefits are not more-likely-than-not realizable; (iii) deferred income tax expense due to changes in the tax bases of indefinite lived intangibles that are amortized for tax purposes, but not for book purposes; and (iv) tax expense on income in certain other foreign jurisdictions that will not be creditable in the United States. Partially offsetting these factors in the Fiscal 2012 Nine Months was: (i) a $19.0 million release by FGL of valuation allowances on deferred tax assets primarily as a result of revised projections in connection with the regulatory non-approval of a proposed reinsurance transaction; (ii) a $41.0 million gain on a contingent purchase price reduction receivable for which is not taxable; and (iii) a $13.9 million release by Spectrum Brands of valuation allowances on deferred tax assets as a result of an acquisition.

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

Noncontrolling Interest. The net income (loss) attributable to noncontrolling interest reflects the share of the net income (loss) of Spectrum Brands and Salus attributable to the noncontrolling interest not owned by HGI. Such amount varies in relation to Spectrum Brands’ and Salus' net income or loss for the period and the percentage interest not owned by HGI, which was 40.8% and 42.6% for Spectrum Brands, and 7.7% and 0.0% for Salus, respectively, as of June 30, 2013 and July 1, 2012.

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

The decrease in the Preferred Stock dividends and accretion for the Fiscal 2013 Quarter compared to the Fiscal 2013 Quarter is due to the quarterly non-cash principal accretion rate decreasing from 4% in the Fiscal 2012 Quarter to a zero rate of accretion for the Fiscal 2013 Quarter.

For purposes of determining the Preferred Stock accretion amount, we calculate the Preferred Stock NAV in accordance with terms of the certificates of designation of the Preferred Stock. In accordance with the certificates of designation, we are required to calculate the Preferred Stock NAV on September 30 and March 31 of each calendar year. The accretion rate will be set for the following six months based on the performance of our Preferred Stock NAV as of the date of such calculation. The Preferred Stock NAV as of March 31, 2013, calculated in accordance with the certificates of designation, was approximately $2.0 billion. This calculation results in no quarterly non-cash accretion for the remainder of Fiscal 2013, although it could increase to an annualized rate of 2% or 4% in subsequent periods based upon changes in the Preferred Stock NAV.

Consumer Products Segment

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

	Fiscal Quarter			Fiscal Nine Months		
	2013	2012	Increase / (Decrease)	2013	2012	Increase / (Decrease)
Net consumer product sales	$ 1,089.8	$ 824.8	$ 265.0	$ 2,947.8	$ 2,419.9	$ 527.9
Consumer products cost of goods sold	707.0	533.1	173.9	1,954.0	1,584.1	369.9
Consumer products gross margin	382.8	291.7	91.1	993.8	835.8	158.0
Selling, acquisition, operating and general expenses	246.8	180.4	66.4	700.2	555.1	145.1
Amortization of intangibles	20.3	16.1	4.2	57.5	46.5	11.0
Operating income (loss) - Consumer Products segment	$ 115.7	$ 95.2	$ 20.5	$ 236.1	$ 234.2	$ 1.9

Revenues. Net consumer products sales for the Fiscal 2013 Quarter increased $265.0 million, or 32.1%, to $1,089.8 million from $824.8 million for the Fiscal 2012 Quarter. The increase was primarily due to sales from the Hardware Acquisition. The increase was offset in part by a decline in household insect control sales in the home and garden product line due to the late arrival of warm weather that resulted in a delay to the major selling season for these products; planned exit from marginally profitable products in small appliances, largely in North America; and lower consumer battery sales resulting from the non-recurrence of promotions and inventory management.

Net consumer products sales for the Fiscal 2013 Nine Months increased $527.9 million, or 21.8%, to $2,947.8 million from $2,419.9 million for the Fiscal 2012 Nine Months. The increase was primarily due to sales from the Hardware Acquisition. In addition, and to a lesser extent, sales benefited from an increase in pet supplies as a result of increased litter pan sales in North America and the full period impact of the FURminator acquisition completed in December of 2011. The increases were offset in part by the planned exit of marginally profitable small appliances products, lower electric shaving and grooming products as a result of labor disruptions at U.S. ports of entry during the peak holiday period and the negative impact of foreign currency in consumer batteries which offset a marginal sales increase.

Consolidated net sales by product line for each of those respective periods are as follows (in millions):

	Fiscal Quarter			Fiscal Nine Months		
Product line net sales	**2013**	**2012**	**Increase (Decrease)**	**2013**	**2012**	**Increase (Decrease)**
Consumer batteries	$ 207.4	$ 211.2	$ (3.8)	$ 678.1	$ 684.3	$ (6.2)
Small appliances	168.7	173.1	(4.4)	543.4	575.6	(32.2)
Pet supplies	156.4	157.6	(1.2)	456.6	449.0	7.6
Electric shaving and grooming products	61.8	62.9	(1.1)	208.0	215.0	(7.0)
Electric personal care products	53.7	53.5	0.2	196.7	195.1	1.6
Home and garden control products	156.6	166.5	(9.9)	289.1	300.9	(11.8)
Hardware and home improvement products	285.2	—	285.2	575.9	—	575.9
Total net sales to external customers	$ 1,089.8	$ 824.8	$ 265.0	$ 2,947.8	$ 2,419.9	$ 527.9

Consumer products cost of goods sold/Gross Profit. Gross profit, representing net consumer products sales minus consumer products cost of goods sold, for the Fiscal 2013 Quarter was $382.8 million compared to $291.7 million for the Fiscal 2012 Quarter. The HHI Business contributed $101.4 million in gross profit. Spectrum Brands' gross profit margin, representing gross profit as a percentage of consumer products net sales, for the Fiscal 2013 Quarter decreased to 35.1% from 35.4% in the Fiscal 2012 Quarter. The decrease in gross profit margin was driven by unfavorable product mix and increased product costs.

Gross profit, representing net consumer products sales minus consumer products cost of goods sold, for the Fiscal 2013 Nine Months was $993.8 million compared to $835.8 million for the Fiscal 2012 Nine Months. The HHI Business contributed $169.0 million in gross profit. Gross profit margin for the Fiscal 2013 Nine Months decreased to 33.7% from 34.5% in the Fiscal 2012 Nine Months. The decrease in gross profit and gross profit margin was driven by a $31.0 million increase to cost of goods sold due to the sale of inventory which was revalued in connection with the acquisition of the HHI Business, which more than offset improvements to gross profit resulting from the exit of low margin products in Spectrum Brands' small appliances category.

Selling, acquisition, operating and general expenses. Selling, acquisition, operating and general expenses increased by $66.4 million, or 36.8%, to $246.8 million for the Fiscal 2013 Quarter, from $180.4 million for the Fiscal 2012 Quarter. The $66.4 million increase in Spectrum Brands' selling, operating and general expenses is primarily attributable to the acquisition of the HHI Business which accounts for the $55.3 million increase in operating expenses and led to a $2.5 million increase in acquisition and integration related charges. In addition, Spectrum Brands incurred a $10.0 million increase in restructuring and related charges primarily attributable to the global expense rationalization initiative announced in the Fiscal 2013 Quarter and an increase in stock compensation expense of $13.0 million, tempered by $14.0 million in savings from cost reduction initiatives and positive foreign exchange impacts of $1.0 million.

Selling, acquisition, operating and general expenses increased by $145.1 million, or 26.1%, to $700.2 million for the Fiscal 2013 Nine Months, from $555.1 million for the Fiscal 2012 Nine Months. The $145.1 million increase in Spectrum Brands' selling, operating and general expenses is principally due to the acquisition of the HHI Business which accounted for $116.4 million in operating expenses and led to a $19.9 million increase in acquisition and integration related charges. In addition, Spectrum Brands incurred a $16.0 million increase in restructuring and related charges, and an increase in stock compensation expense of $17.0 million tempered by $17.0 million in savings from cost reduction initiatives and positive foreign exchange impacts of $4.0 million.

Amortization of intangibles. For the Fiscal 2013 Quarter, amortization of intangibles increased $4.2 million, or 26.1%, to $20.3 million from $16.1 million for the Fiscal 2012 Quarter. For the Fiscal 2013 Nine Months, amortization of intangibles increased $11 million, or 23.7%, to $57.5 million from $46.5 million for the Fiscal 2012 Nine Months. The increases in the three and nine months ended June 30, 2013 was primarily due to an increase in amortization of intangibles acquired as part of the HHI Business Acquisition.

Spectrum Brands expects an increase in amortization of intangibles in future periods due to additional amortizable definite-lived intangibles acquired as part of business acquisitions within our Consumer Products segment (see Note 3, Acquisitions, in the accompanying Condensed Consolidated Financial Statements for further detail.)

Insurance Segment

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

	Fiscal Quarter			Fiscal Nine Months		
	2013	2012	Increase / (Decrease)	2013	2012	Increase / (Decrease)
Insurance premiums	$ 19.0	$ 12.1	$ 6.9	$ 46.9	$ 42.2	$ 4.7
Net investment income	182.6	178.1	4.5	519.5	537.6	(18.1)
Net investment gains (losses)	58.3	(12.9)	71.2	411.5	254.6	156.9
Insurance and investment product fees and other	16.1	9.0	7.1	44.4	28.2	16.2
Total Insurance segment revenues	276.0	186.3	89.7	1,022.3	862.6	159.7
Benefits and other changes in policy reserves	107.2	141.0	(33.8)	431.7	559.7	(128.0)
Acquisition, operating and general expenses, net of deferrals	25.6	19.9	5.7	76.0	101.4	(25.4)
Amortization of intangibles	64.7	26.9	37.8	163.1	112.0	51.1
Total Insurance segment operating costs and expenses	197.5	187.8	9.7	670.8	773.1	(102.3)
Operating income - Insurance segment	$ 78.5	$ (1.5)	$ 80.0	$ 351.5	$ 89.5	$ 262.0

Insurance premiums. Premiums primarily reflect insurance premiums for traditional life insurance products which are recognized as revenue when due from the policyholder. FGL Insurance has ceded the majority of its traditional life business to unaffiliated third party reinsurers. The remaining traditional life business is primarily related to traditional life contracts that contain return of premium riders, which have not been reinsured to third party reinsurers.

For the Fiscal 2013 Quarter, premiums increased $6.9 million, or 57.0%, to $19.0 million from $12.1 million for the Fiscal 2012 Quarter. For the Fiscal 2013 Nine Months, premiums increased $4.7 million or 11.1%, to $46.9 million from $42.2 million for the Fiscal 2012 Nine Months. The increases for the Fiscal 2013 Quarter and Fiscal 2013 Nine Months are primarily due to the rescission of the coinsurance agreement with Wilton Re covering home certain disability income riders during the quarter which resulted in a decrease in ceded premiums of approximately $4.5 million.

Net investment income. For the Fiscal 2013 Quarter and Nine Months, we had net investment income of $182.6 million and $519.5 million, respectively, compared to $178.1 million and $537.6 million for the Fiscal 2012 Quarter and Nine Months, respectively. For the Fiscal 2013 Quarter, net investment income increased $4.5 million, as compared to Fiscal 2012 Quarter, primarily due to FGL's strategy to reinvest excess cash and cash equivalents and lower yielding treasury notes into higher yielding assets. For the Fiscal 2013 Nine Months, net investment income decreased $18.1 million, as compared to Fiscal 2012 Nine Months, due to lower average yield on invested assets for the first six months of Fiscal 2013 resulting from portfolio changes to shorten the overall portfolio duration during the 2012 calendar year by selling longer dated and higher yielding investment grade rated bonds at gains in anticipation of rising interest rates and to realize certain tax-advantaged built-in-gains during the quarter ended December 30, 2012.

Average invested assets (on an amortized cost basis) were $16.9 billion and $16.6 billion and the average yield earned on average invested assets was 4.34% and 4.50% (annualized) for the Fiscal 2013 Quarter and Fiscal 2012 Quarter, respectively, compared to interest credited and option costs of 3.04% and 3.22% (annualized) for each Fiscal Quarter, respectively. The average yield earned on average invested assets was 4.27% and 4.54% (annualized) for the Fiscal 2013 Nine Months and Fiscal 2012 Nine Months, respectively, compared to interest credited and option costs of 3.06% and 3.26% (annualized,) for each Fiscal Nine Months, respectively.

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

	Fiscal Quarter		Fiscal Nine Months	
	2013	2012	2013	2012
Average yield on invested assets	4.34%	4.50%	4.27%	4.54%
Less: Interest credited and option cost	3.04%	3.22%	3.06%	3.26%
Net investment spread	1.30%	1.28%	1.21%	1.28%

The increase in net investment spread for the Fiscal 2013 Quarter is primarily attributable to an increase in net investment income due to FGL's strategy to reinvest excess cash and cash equivalents and lower yielding treasury notes into higher yielding assets during the Fiscal 2013 Quarter. Also contributing to the increase in spread was lower interest credited/option costs that resulted from lower crediting rates and a reduction in the cost of equity options hedging the FIA index credits.

The decrease in net investment spread for the Fiscal 2013 Nine Months is primarily attributable to the decrease in net investment income during the period as discussed above partially offset by lower interest credited/option costs that resulted in lower crediting rates and a reduction in the cost of equity options hedging the FIA index credits.

Net investment gains (losses). For the Fiscal 2013 Quarter, FGL had net investment gains of $58.3 million compared to net investment losses of $12.9 million for the Fiscal 2012 Quarter. The quarter over quarter increase of $71.2 million is due to $20.0 million of net realized and unrealized gains on long futures and equity options purchased to hedge the annual index credits for FIA contracts recognized during the Fiscal 2013 Quarter, compared to net realized and unrealized losses of $51.2 million during the Fiscal 2012 Quarter, an increase of $71.2 million. Net realized and unrealized gains on derivative instruments primarily resulted from the performance of the indices upon which the call options and futures contracts are based and the aggregate cost of options purchased. A substantial portion of the call options and futures contracts are based upon the Standard & Poors ("S&P") 500 Index with the remainder based upon other equity and bond market indices. Beginning in August of 2012, FGL modified its hedging strategy to be more statically hedged, thereby increasing the aggregate amount of options purchases in subsequent periods. Accordingly, the quarter over quarter increase was driven by the aggregate amount of options purchased due to sales of the Prosperity Elite product line which was introduced during the fourth quarter of Fiscal Year 2011, as well as the improved performance of the S&P 500.

For the Fiscal 2013 Nine Months, FGL had net investment gains of $411.5 million compared to net investment gains of $254.6 million for the Fiscal 2012 Nine Months. The period over period increase of $156.9 million is primarily due to $285.0 million of net investment gains on fixed maturity and equity available-for-sale securities in the Fiscal 2013 Nine Months, compared to net investment gains of $173.0 million for the Fiscal 2012 Nine Months. The $112.0 million increase period over period is primarily due to the tax strategy for realization of certain tax-advantaged built-in-gains related to the 2011 acquisition, by selling longer dated investment grade rated bonds at gains. Included in the Fiscal 2012 Nine Months was $30.5 million of gains associated with the asset transfer on October 1, 2011 for the closing of the final transaction-related reinsurance transaction with Wilton Re. The $30.5 million of gains were paid to Wilton Re as part of the initial asset transfer. The remaining increase was due to an increase in net realized and unrealized gains on long futures and equity options of $44.0 million due to the quarter over quarter factors discussed above.

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

	Fiscal Quarter		Fiscal Nine Months	
	2013	2012	2013	2012
Call options:				
Gain (loss) on option expiration	$ 47.5	$ (19.5)	$ 87.4	$ (57.3)
Change in unrealized (loss) gain	(31.0)	(25.1)	26.6	106.0
Futures contracts:				
Gain (loss) on futures contracts expiration	6.7	(6.8)	11.9	25.3
Change in unrealized (loss) gain	(3.2)	0.2	0.7	8.6
	$ 20.0	$ (51.2)	$ 126.6	$ 82.6

The average index credits to policyholders were as follows:

	Fiscal Quarter		Fiscal Nine Months	
	2013	2012	2013	2012
S&P 500 Index:				
Point-to-point strategy	4.71%	2.59%	5.36%	2.34%
Monthly average strategy	4.10%	0.18%	4.90%	1.48%
Monthly point-to-point strategy	5.67%	0.01%	4.26%	0.02%
3 Year high water mark	20.31%	17.09%	23.67%	17.41%

For the Fiscal 2013 Quarter and Fiscal 2013 Nine Months, the average return to contractholders from index credits during the period was 5.10% and 5.01% (annualized), compared to 1.24% and 1.45% (annualized) for the Fiscal 2012 Quarter. The period over period increases were primarily due to greater appreciation in the S&P 500 Index.

Actual amounts credited to contractholder fund balances may be less than the index appreciation due to contractual features in the FIA contracts (caps, spreads, participation rates and asset fees) which allow FGL to manage the cost of the options purchased to fund the annual index credits.

Insurance and investment product fees and other. For the Fiscal 2013 Quarter, insurance and investment product fees and other consists primarily of cost of insurance and surrender charges assessed against policy withdrawals in excess of the policyholder’s allowable penalty-free amounts (up to 10% of the prior year’s value, subject to certain limitations). These revenues increased $7.1 million, or 78.9%, to $16.1 million for the Fiscal 2013 Quarter from $9.0 million for the Fiscal 2012 Quarter and increased $16.2 million, or 57.4% to $44.4 million, for the Fiscal 2013 Nine Months from $28.2 million for the Fiscal 2012 Nine Months. These increases are primarily due to cost of insurance revenue on new universal life policies issued during the last twelve months and policy rider fees on the Prosperity Elite product line which was introduced during the fourth quarter of the year ended September 30, 2011.

Benefits and other changes in policy reserves.

For the Fiscal 2013 Quarter, benefits and other changes in policy reserves decreased $33.8 million, or 24.0%, to $107.2 million, from $141.0 million for the Fiscal 2012 Quarter principally due to a $68.4 million decrease in the present value of future credits and guarantee liability compared to a $34.6 million increase in the Fiscal 2012 Quarter. The quarter over quarter decrease of $103.0 million was primarily driven by the increase in the risk free rates during the Fiscal 2013 Quarter compared to the decrease in rates during the Fiscal 2012 Quarter. Partially offsetting these decreases were index credits, interest credits and bonuses of $161.5 million during the Fiscal 2013 Quarter compared to $89.2 million during the Fiscal 2012 Quarter. The increase in interest credits quarter over quarter is primarily due to first time credits on annual point to point policies on the new Prosperity Elite product line which had large sales in the Fiscal 2012 Quarter. Changes in index credits are attributable to changes in the underlying indices and the amount of funds allocated by policyholders to the respective index options.

For the Fiscal 2013 Nine Months, benefits and other changes in policy reserves decreased $128.0 million, or 22.9%, to $431.7 million, from $559.7 million for the Fiscal 2012 Nine Months principally due to the present value of future credits and guarantee liability which decreased $131.7 million during Fiscal 2013 Nine Months compared to a $6.1 million increase during the Fiscal 2012 Nine Months. The period over period decrease of $137.8 million was primarily driven by the increase in the risk free rates during the Fiscal 2013 Nine Months compared to the decrease in rates during the Fiscal 2012 Nine Months.

Selling, acquisition, operating and general expenses. Selling, acquisition, operating and general expenses, net of deferrals, of the Insurance segment, increased $5.7 million, or 28.6%, to $25.6 million for the Fiscal 2013 Quarter, from $19.9 million for the Fiscal 2012 Quarter principally due to compensation expense related to FGL's 2011 and 2012 stock option grants. The outstanding grants are marked to market each quarter based on the most recent valuation which resulted in additional stock compensation expense of $2.0 million in the Fiscal 2013 Quarter.

Selling, acquisition, operating and general expenses, net of deferrals, of the Insurance segment, decreased $25.4 million, or 25.0%, to $76.0 million for the Fiscal 2013 Nine Months, from $101.4 million for the Fiscal 2012 Nine Months principally due a $31.1 million ceding commission paid to Wilton Re primarily related to $30.5 million of investment gains realized on the securities transferred to Wilton Re on the October 17, 2011 effective date of the second acquisition-related reinsurance amendment.

Amortization of intangibles. For the Fiscal 2013 Quarter, amortization of intangibles increased $37.8 million, or 140.5%, to $64.7 million from $26.9 million for the Fiscal 2012 Quarter. This increase is primarily due to new deferrals of $345.2 million since the Acquisition Date. For the Fiscal 2013 Nine Months, amortization of intangibles increased $51.1 million, or 45.6%, to $163.1 million from $112.0 million for the Fiscal 2012 Nine Months primarily due an increase in amortization of acquisition costs as a result of higher earnings on the FIA line of business as well as new new deferrals. The increase in FIA earnings was principally due to sales of longer dated investment grade rated bonds at gains as discussed above.

Energy Segment

	Fiscal Quarter			Fiscal Nine Months		
	2013	2012	Increase / (Decrease)	2013	2012	Increase / (Decrease)
Oil and natural gas revenues	$ 37.8	$ —	$ 37.8	$ 54.5	$ —	$ 54.5
Oil and natural gas direct operating costs	18.1	—	18.1	26.9	—	26.9
Oil and natural gas operating margin	19.7	—	19.7	27.6	—	27.6
Acquisition, operating and general expenses, net of deferrals	14.9	—	14.9	22.3	—	22.3
Operating income - Energy segment	$ 4.8	$ —	$ 4.8	$ 5.3	$ —	$ 5.3

Oil and natural gas production, revenues, and prices

For the Fiscal 2013 Quarter, the Energy segment's production was 119 MBbl of oil, 126 MBbl of natural gas liquids and 5,953 Mmcf of natural gas. Oil and natural gas revenues were $37.8 million. The Energy segment's average sales price, excluding the impact of derivative financial instruments, was $90.8 per Bbl of oil, $34.0 per Bbl of natural gas liquids, and $3.8 per Mcf of natural gas. The Energy segment's developmental activities in the Permian basin during the period included seven wells spud and nine wells completed. The production during the period consisted of 5.8 Bcfe from the East Texas/North Louisiana region and 1.6 Bcfe from the Permian basin. The production of the EXCO/HGI JV includes 1.4 Bcfe as a result of the acquisition of the Cotton Valley assets from the BG Group on March 5, 2013.

For the period from inception to June 30, 2013, the Energy segment's production was 177 MBbl of oil, 180 MBbl of natural gas liquids and 8,726 Mmcf of natural gas. Oil and natural gas revenues were $54.5 million. The Energy segment's average sales price, excluding the impact of derivative financial instruments, was $89.7 per Bbl of oil, $35.2 per Bbl of natural gas liquids, and $3.7 per Mcf of natural gas. Our developmental activities in the Permian basin during the period included 11 wells spud and 12 wells completed. The production during the period consisted of 8.6 Bcfe from the East Texas/North Louisiana region and 2.3 Bcfe from the Permian basin. The production of the EXCO/HGI JV includes 1.9 Bcfe as a result of the acquisition of the Cotton Valley assets from the BG Group on March 5, 2013.

Operating costs and expenses

The Energy segment's oil and natural gas operating costs for the Fiscal 2013 Quarter were $11.4 million or $1.5 per Mcfe and for the period from inception to June 30, 2013 were $16.8 million or $1.5 per Mcfe. These costs primarily consisted of labor and overhead costs, chemical treatment programs, salt-water disposal costs, and other various costs associated with the operation of the wells. The Energy segment is currently focused on implementing programs to reduce our oil and natural gas operating costs.

Gathering and transportation expenses totaled $2.7 million or $0.4 per Mcfe for the Fiscal 2013 Quarter, and totaled $4.0 million or $0.4 per Mcfe from inception to the period ended June 30, 2013. We utilize pipeline companies to facilitate sales of our East Texas/North Louisiana volumes and report these transportation costs as a component of gathering and transportation expenses.

Production and ad valorem taxes were $4.0 million, or $0.5 per Mcfe, for the Fiscal 2013 Quarter, and were $6.0 million, or $0.5 per Mcfe, for the period from inception to June 30, 2013.

The Energy segment's depletion expense for the Fiscal 2013 Quarter was $12.3 million, or $1.7 on a per Mcfe basis. Depletion expense was calculated using the unit-of-production method for the Energy segment's proved oil and natural gas properties. The Energy segment's depreciation costs for the Fiscal 2013 Quarter were $0.4 million. This depreciation relates to gas gathering assets in the East Texas/North Louisiana region. Accretion of discount

on asset retirement obligations for the Fiscal 2013 Quarter was $0.5 million. The Energy segment's depletion expense for the period from inception to June 30, 2013 was $18.0 million, or $1.7 on a per Mcfe basis. The Energy segment's depreciation costs for the period from inception to June 30, 2013 were $0.5 million. This depreciation relates to gas gathering assets in the East Texas/North Louisiana region. Accretion of discount on asset retirement obligations for the period from inception to June 30, 2013 was $0.7 million.

General and administrative

The Energy segment's general and administrative costs for the Fiscal 2013 Quarter were $1.5 million, or $0.2 per Mcfe, and for the period from inception to June 30, 2013 were $2.6 million, or $0.2 per Mcfe. Significant components of general and administrative expense for the Fiscal 2013 Quarter and for the period from inception to June 30, 2013, respectively, included (i) service agreement charges of $2.3 million and $3.6 million, respectively, related to accounting, legal, information technology, treasury, engineering, and other costs; (ii) Employee personnel costs of $1.2 million and $1.8 million, respectively, including salaries, bonuses, insurance and other benefits; (iii) Operator overhead reimbursements allocated to the working interest owners of our operated oil and natural gas properties of $2.1 million and $3.2 million, respectively; and (iv) Capitalized salaries related to the Energy segment's oil and natural gas exploration and production activities of $0.2 million and $0.3 million, respectively.

Summary of key financial data

A summary of key financial data from inception to the period ended June 30, 2013 related to our proportionate 74.5% interest in the results of operations of the EXCO/HGI JV reported in the Energy segment is presented below:

	Fiscal Quarter	Fiscal Nine Months
(dollars in millions, except per unit prices)	**2013**	**2013**
Production:		
Oil (Mbbls)	119.0	177.0
Natural gas liquids (Mbbls)	126.0	180.0
Natural gas (Mmcf)	5,953.0	8,726.0
Total production (Mmcfe) (1)	7,423.0	10,868.0
Average daily production (Mmcfe)	81.6	79.9
Revenues before derivative financial instrument activities:		
Oil	$ 10.8	$ 15.9
Natural gas liquids	4.3	6.3
Natural gas	22.7	32.3
Total revenues	$ 37.8	$ 54.5
Oil and natural gas derivative financial instruments:		
Cash settlements (payments) on derivative financial instruments	$ (1.9)	$ (1.3)
Non-cash change in fair value of derivative financial instruments	11.5	2.1
Total derivative financial instrument activities	$ 9.6	$ 0.8
Average sales price (before cash settlements of derivative financial instruments):		
Oil (per Bbl)	$ 90.8	$ 89.7
Natural gas liquids (per Bbl)	34.0	35.2
Natural gas (per Mcf)	3.8	3.7
Natural gas equivalent (per Mcfe)	5.1	5.0
Costs and expenses (per Mcfe):		
Oil and natural gas operating costs	$ 1.5	$ 1.5
Production and ad valorem taxes	0.5	0.5
Gathering and transportation	0.4	0.4
Depletion	1.7	1.7
Depreciation and amortization	0.1	—
General and administrative	0.2	0.2

(1) Mmcfe is calculated by converting one barrel of oil or natural gas liquids into six Mcf of natural gas.

Financial Services Segment

	Fiscal Quarter			Fiscal Nine Months		
	2013	2012	Increase / (Decrease)	2013	2012	Increase / (Decrease)
Net investment income	$ 9.4	$ 1.7	$ 7.7	$ 27.8	$ 2.1	$ 25.7
Insurance and investment product fees and other	0.8	—	0.8	1.7	—	1.7
Total Financial Services segment revenues	10.2	1.7	8.5	29.5	2.1	27.4
Financial Services segment operating costs and expenses	6.1	1.2	4.9	12.9	2.6	10.3
Operating income (loss) - Financial Services segment	$ 4.1	$ 0.5	$ 3.6	$ 16.6	$ (0.5)	$ 17.1

Operating Income (loss). Operating income (loss) from asset-backed loan financing and other asset-management activities in the Financial Services segment increased $3.6 million during the Fiscal 2013 Quarter to $4.1 million, from an operating loss of $0.5 million earned during the Fiscal 2012 Quarter. Operating income for the Fiscal 2013 Nine Months increased $17.1 million to $16.6 million, from an operating loss of $0.5 million earned during Fiscal 2012 Nine Months. The increases in operating income during the three and nine months are as a result of an increase in asset-backed loans originated by the operations of Salus, from $74.0 million in the Fiscal 2012 Quarter, to $433.3 million in the Fiscal 2013 Quarter.

Also contributing to operating income in the Fiscal 2013 Quarter and Nine Months was an increase in asset management fees earned from the Insurance segment by the operations of Five Island, a newly formed, wholly-owned asset management company, with $1.4 billion, as of June 30, 2013, in assets under management related to the Reinsurance Transaction.

Corporate and Other Segment

Selling, acquisition, operating and general expenses. Selling, acquisition, operating and general expenses increased $5.1 million to $17.3 million for the Fiscal 2013 Quarter from $12.2 million for the Fiscal 2012 Quarter.

The $5.1 million increases in corporate expenses for the Fiscal Quarter is primarily due to the hiring of new personnel and an increase in overhead costs such as insurance during the Fiscal 2013 Quarter.

Selling, acquisition, operating and general expenses increased $34.9 million to $68.2 million for the Fiscal 2013 Nine Months from $33.3 million for the Fiscal 2012 Nine Months. The $34.9 million increases in corporate expenses for the Fiscal Nine Months is primarily due to the hiring of new personnel and an increased bonus compensation accruals during the Nine Months based on an increase in HGI’s net asset value ("Compensation NAV") determined in accordance with the criteria established by HGI’s Compensation Committee (as discussed further under below), acquisition-related charges for the acquisition of HGI's interest in the EXCO/HGI JV, and an allocation of overhead costs from Harbinger Capital Partners LLC ("Harbinger Capital"), an affiliate.

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

HGI’s Compensation Committee has established annual salary, bonus and equity-based compensation arrangements with certain of HGI’s corporate employees, including performance-based bonus targets based on the achievement of personal performance goals, and performance-based bonus targets based on performance measured in terms of the change in the value of HGI’s Compensation NAV. Performance-based bonuses paid based on the growth of the Compensation NAV allow management to participate in a portion of HGI’s performance.

HGI’s operating costs decreased by approximately $1.1 million for the Fiscal 2013 Quarter, and increased by approximately $11.8 million for the Fiscal 2013 Nine Months, as compared to the respective comparable prior fiscal periods, as a result of the accrual for these bonus compensation expenses. These respective decrease and

increase in the accrual amounts reflect the underlying performance and growth in the Compensation NAV, which has grown approximately 4.2% and 49.5% in the Fiscal 2013 Quarter and Nine Months, respectively. The current results of HGI would result in a mix of cash and equity awards being paid over the next two years if the growth in Compensation NAV is sustained. If the growth in Compensation NAV is sustained, we expect the remainder of Fiscal 2013 to have approximately $7.8 million of bonus compensation expense relating to the 2013 Compensation NAV and deferred cash awards related to the 2012 Compensation NAV. In addition, we expect to recognize approximately $20.2 million of deferred bonus compensation expense in Fiscal 2014 for the 2013 Compensation NAV and deferred cash awards relating to the 2012 Compensation NAV, subject to clawback provisions if the subsequent increase in Compensation NAV does not exceed specified threshold returns.

Non-GAAP Measures

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

Adjusted EBITDA increased $3.5 million, or 1.9%, to $188.5 million for the Fiscal 2013 Quarter from $185.0 million for the Fiscal 2012 Quarter. The increase in Adjusted EBITDA was primarily a result of (i) increased sales, cost improvements and operating expense reductions at Spectrum Brands' Global Pet Supplies segment. These increases where partially offset by (i) the decrease in segment profit resulting from decreased sales, unfavorable product mix and pricing pressures in the U.S. for Spectrum Brands' Global Batteries and Appliances segments, and (ii) decreased sales in Spectrum Brands' Home and Garden segment due to the late arrival of warm weather.

Adjusted EBITDA increased $2.8 million, or 0.6%, to $492.4 million for the Fiscal 2013 Nine Months from $489.6 million for the Fiscal 2012 Nine Months. The increase in Adjusted EBITDA was primarily a result of (i) increased sales, cost improvements and operating expense reductions at Spectrum Brands' Global Pet Supplies product line and (ii) a slight improvement in Spectrum Brands' Global Batteries and Appliances product line's profitability driven by the exit of low margin products in the small appliances category. These increases where partially offset by (i) increased cost of goods sold at Spectrum Brands' Global Pet Supplies product line resulting from unfavorable manufacturing variances driven by plant shutdowns during the fourth quarter of Fiscal 2012, (ii) the decrease in segment profit resulting from decreased sales, unfavorable product mix and pricing pressures in the U.S. for Spectrum Brands' Global Batteries and Appliances product line, and (iii) decreased sales in Spectrum Brands' Home and Garden product line due to the late arrival of warm weather.

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

	Fiscal Quarter		Fiscal Nine Months	
Reconciliation to reported operating income:	2013	2012	2013	2012
Reported operating income - consumer products segment	$ 115.7	$ 95.2	$ 236.1	$ 234.2
Add: Other expense not included above	(2.6)	(2.2)	(7.9)	(2.2)
Add back:				
Net loss attributable to non-controlling interest	—	—	—	—
HHI Business inventory fair value adjustment	—	—	31.0	—
Pre-acquisition earnings of HHI Business	—	52.5	30.3	130.1
Restructuring and related charges	13.2	3.9	27.7	15.9
Acquisition and integration related charges	7.7	5.2	40.5	20.6
Venezuela devaluation	—	—	2.0	—
Adjusted EBIT - consumer products segment	134.0	154.6	359.7	398.6
Depreciation and amortization, net of accelerated depreciation				
Depreciation of properties	16.4	9.8	42.6	28.7
Amortization of intangibles	20.3	16.1	57.5	46.5
Stock-based compensation	17.8	4.5	32.6	15.8
Adjusted EBITDA - consumer products segment	$ 188.5	$ 185.0	$ 492.4	$ 489.6

Adjusted Operating Income — Insurance. Adjusted operating income is a non-US GAAP financial measure frequently used throughout the insurance industry and an economic measure FGL uses to evaluate financial performance each period. For the Fiscal 2013 Quarter, adjusted operating income increased $20.3 million to $23.7 million, or 597.1%, from $3.4 million for the Fiscal 2012 Quarter. This increase is primarily due to the non-recurrence of an $11.0 million charge for an estimated unreported death claims liability, net of reinsurance, recorded during the Fiscal 2012 Quarter resulting from a search of the Social Security Administration database that produced a listing of deceased policyholders that died while their policy was in force (see Note 16, Commitments and Contingencies for additional information regarding this charge).

For the Fiscal 2013 Nine Months, adjusted operating income increased $46.7 million to $86.6 million, or 117.0%, from $39.9 million for the Fiscal 2012 Nine Months. This increase is primarily due to immediate annuity mortality gains of $27.3 million recognized in the Fiscal 2013 Nine Months caused by large case deaths, as discussed above in benefits and other changes in policy reserves, in addition to the absence of the $11.0 million charge for unclaimed death benefits recorded in the Fiscal 2012 Quarter as discussed above.

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

	Fiscal Quarter		Fiscal Nine Months	
Reconciliation to reported operating income:	2013	2012	2013	2012
Reported operating income - insurance segment	$ 78.5	$ (1.5)	$ 351.5	$ 89.5
Effect of investment gains, net of offsets	(20.4)	(17.2)	(206.1)	(72.2)
Effect of change in FIA embedded derivative discount rate, net of offsets	(34.4)	17.9	(58.8)	10.8
Effects of transaction-related reinsurance	—	4.2	—	11.8
Adjusted operating income - insurance segment	$ 23.7	$ 3.4	$ 86.6	$ 39.9

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

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

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

Adjusted EBITDA - Energy. Earnings before interest, taxes, depreciation, depletion and amortization, or "EBITDA" represents net income adjusted to exclude interest expense, income taxes and depreciation, depletion and amortization. "Adjusted EBITDA" represents EBITDA adjusted to exclude non-recurring other operating items, accretion of discount on asset retirement obligations, non-cash changes in the fair value of derivatives, non-cash write-downs of assets, and stock-based compensation. We have presented EBITDA and Adjusted EBITDA because they are a widely used measure by investors, analysts and rating agencies for valuations, peer comparisons and investment recommendations. In addition, these measures are used in covenant calculations required under our credit agreement. Compliance with the liquidity and debt incurrence covenants included in these agreements is considered material to us. Our computations of EBITDA and Adjusted EBITDA may differ from computations of similarly titled measures of other companies due to differences in the inclusion or exclusion of items in our computations as compared to those of others. EBITDA and Adjusted EBITDA are measures that are not prescribed by generally accepted accounting principles, or GAAP. EBITDA and Adjusted EBITDA specifically exclude changes in working capital, capital expenditures and other items that are set forth on a cash flow statement presentation of a company's operating, investing and financing activities. As such, we encourage investors not to use these measures as substitutes for the determination of net income, net cash provided by operating activities or other similar GAAP measures.

Table of Contents

The table below shows the adjustments made to the reported operating income of the EXCO/HGI JV to calculate its Adjusted EBITDA:

	Fiscal Quarter	Fiscal Nine Months
Reconciliation to reported operating income:	**2013**	**2013**
Reported operating income - energy segment	$ 4.8	$ 5.3
Depreciation, amortization and depletion	12.7	18.5
EBITDA - energy segment	17.5	23.8
Accretion of discount on asset retirement obligations	0.4	0.7
Realized loss on derivative financial instruments	(1.9)	(1.3)
Adjusted EBITDA - energy segment	$ 16.0	$ 23.2

Liquidity and Capital Resources

HGI

HGI is a holding company and its liquidity needs are primarily for interest payments on the 7.875% Notes and the New Notes (approximately $72.8 million per year), dividend payments on its Preferred Stock (approximately $32.9 million per year), professional fees (including advisory services, legal and accounting fees), executive bonuses, salaries and benefits, office rent, pension expense, insurance costs, funding certain requirements of its insurance and other subsidiaries, and certain support services and office space provided by Harbinger Capital to HGI. HGI's current source of liquidity is its cash, cash equivalents and investments, and distributions from FGL, Spectrum Brands, the EXCO/HGI JV and Salus.

During the Fiscal 2013 Nine Months, we received $108.7 million in dividends from FGL, Spectrum and Salus ($93.0 million, $15.0 million and $0.7 million, respectively). The FGL dividend of $93.0 million includes the special dividend of $73.0 million paid out of the proceeds from the $300.0 million aggregate principal amount of the FGL Notes. In addition, we received a benefit, in the form of a purchase price reduction of $22.7 million at the closing of the EXCO/HGI JV as a result of applying an economic effective date of July 1, 2012 to the transaction. We expect to receive approximately $25.9 million of dividends during the remainder of fiscal 2013. This includes approximately $7.7 million additional dividends for HGI's portion of a $0.25 per share quarterly dividend to be declared by Spectrum Brands to its stockholders, $15.0 million of dividends to be paid by the EXCO/HGI JV and $3.2 million of dividends to be paid by Salus.

As a result, approximately $157.3 million, including the special dividend received from FGL and the purchase price reduction received at the closing of the EXCO/HGI JV, is expected to be received for the fiscal year ended September 30, 2013 which exceeds our expected cash requirements to satisfy interest and general and administrative expenses. The ability of HGI's subsidiaries to generate sufficient net income and cash flows to make upstream cash distributions is subject to numerous factors, including restrictions contained in such subsidiary's financing agreements, availability of sufficient funds in such subsidiary, applicable state laws and regulatory restrictions and the approval of such payment by such subsidiary's board of directors, which must consider various factors, including general economic and business conditions, tax considerations, strategic plans, financial results and condition, expansion plans, any contractual, legal or regulatory restrictions on the payment of dividends, and such other factors such subsidiary's board of directors considers relevant including, in the case of FGL, target capital ratios and ratio levels anticipated by regulatory agencies to maintain or improve current ratings (see "FGL" below for more detail). At the same time, HGI's subsidiaries may require additional capital to maintain or grow their businesses. Such capital could come from HGI, retained earnings at the relevant subsidiary or from third-party sources, including from the issuance of debt and/or equity by HGI or our subsidiaries. For example, Front Street Re, Ltd. ("Front Street"), a Bermuda-based reinsurer and wholly-owned subsidiary of ours, will require additional capital in order to engage in reinsurance transactions, and may require additional capital to meet regulatory capital requirements. In addition, FGL may issue debt and/or equity in the future to grow its business and/or pursue acquisition activities. HGI and FGL have also committed to provide Salus with capital and financing, in order to engage in asset based lending transactions.

We expect our cash, cash equivalents and investments to continue to be a source of liquidity except to the extent they may be used to fund investments in operating businesses or assets. At June 30, 2013, HGI's corporate cash, cash equivalents and investments were $122.0 million.

Based on current levels of operations, HGI does not have any significant capital expenditure commitments and management believes that its consolidated cash, cash equivalents and investments on hand will be adequate to fund its operational and capital requirements for at least the next twelve months. Depending on the size and terms of future acquisitions of operating businesses or assets, HGI and its subsidiaries may raise additional capital through the issuance of equity, debt, or both. There is no assurance, however, that such capital will be available at that time, in the amounts necessary or with terms satisfactory to HGI. We expect to service any such new additional debt through raising dividends received from our subsidiaries. We may also seek to retire or refinance our 7.875% Notes or Preferred Stock through open market purchases, tender offers, negotiated transactions or otherwise.

Spectrum Brands

Spectrum Brands expects to fund its cash requirements, including capital expenditures, dividend, interest and principal payments due during the remainder of Fiscal 2013 through a combination of cash on hand ($99.0 million at June 30, 2013) and cash flows from operations and available borrowings under its ABL revolving credit facility (the "ABL Facility"). Spectrum Brands expects its capital expenditures for the remaining three months of Fiscal 2013 will be approximately $24.8 million to $34.8 million. Going forward, its ability to satisfy financial and other covenants in its senior credit agreements and senior unsecured indentures and to make scheduled payments or prepayments on its debt and other financial obligations will depend on its future financial and operating performance. There can be no assurances that its business will generate sufficient cash flows from operations or that future borrowings under the ABL Facility will be available in an amount sufficient to satisfy its debt maturities or to fund its other liquidity needs.

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

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

FGL

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

In March 2013, FGL issued $300.0 million aggregate principal amount of its 6.375% senior notes due April 1, 2021, at par value. FGL expects to use the net proceeds from the issuance of the notes for general corporate purposes, to support the growth of its subsidiary life insurance company and to pay a $75.0 million dividend, of which $73.0 million was paid to HGI on March 28, 2013.

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

FGL’s insurance subsidiaries have used cash flows from operations and investment activities to fund their liquidity requirements. FGL’s insurance subsidiaries’ principal cash inflows from operating activities are derived from premiums, annuity deposits and insurance and investment product fees and other income. The principal cash inflows from investment activities result from repayments of principal, investment income and, as necessary, sales of invested assets.

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

The ability of FGL’s subsidiaries to pay dividends and to make such other payments is limited by applicable laws and regulations of the states in which its subsidiaries are domiciled, which subject its subsidiaries to significant regulatory restrictions. These laws and regulations require, among other things, FGL’s insurance subsidiaries to maintain minimum solvency requirements and limit the amount of dividends these subsidiaries can pay. Along with solvency regulations, the primary driver in determining the amount of capital used for dividends is the level of capital needed to maintain desired financial strength ratings from the rating agencies. In that regard, we may

limit dividend payments from our major insurance subsidiary to the extent necessary for its risk based capital ratio to be at a level anticipated by the ratings agencies to maintain or improve its current rating. Given recent economic events that have affected the insurance industry, both regulators and rating agencies could become more conservative in their methodology and criteria, including increasing capital requirements for FGL's insurance subsidiaries which, in turn, could negatively affect the cash available to FGL from its insurance subsidiaries and, in turn, to us. FGL monitors its insurance subsidiaries' compliance with the risk based capital requirements specified by the National Association of Insurance Commissioners (the "NAIC"). As of June 30, 2013, each of FGL's insurance subsidiaries has exceeded the minimum risk based capital requirements.

FGL's Investment Portfolio

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

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

As of June 30, 2013 and September 30, 2012, FGL's investment portfolio was approximately $16.1 billion and $16.6 billion, respectively, and was divided among the following asset classes (dollars in millions):

	June 30, 2013		September 30, 2012	
Asset Class	**Fair Value**	**Percent**	**Fair Value**	**Percent**
Asset-backed securities	$ 1,437.5	8.9%	$ 1,027.9	6.2%
Commercial mortgage-backed securities	523.9	3.3%	553.8	3.3%
Corporates	10,212.8	63.4%	11,009.0	66.5%
Equities	269.8	1.7%	248.1	1.5%
Hybrids	508.3	3.2%	528.2	3.2%
Municipals	1,036.9	6.4%	1,224.0	7.4%
Agency residential mortgage-backed securities	111.0	0.7%	155.0	0.9%
Non-agency residential mortgage-backed securities	1,353.9	8.4%	660.6	4.0%
U.S. Government	394.0	2.4%	930.4	5.6%
Other (primarily derivatives, policy loans and other invested assets)	255.0	1.6%	219.5	1.4%
Total investments	$ 16,103.1	100.0%	$ 16,556.5	100.0%

Fixed Maturity Securities

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

As of June 30, 2013 and September 30, 2012, FGL's fixed maturity available-for-sale portfolio was approximately $15.6 billion and $16.1 billion, respectively. The following table summarizes the credit quality, by NRSRO rating, of FGL's fixed income portfolio (dollars in millions):

	June 30, 2013		September 30, 2012	
Rating	**Fair Value**	**Percent**	**Fair Value**	**Percent**
AAA	$ 1,176.4	7.6%	$ 1,842.3	11.4%
AA	2,559.3	16.4%	2,042.9	12.7%
A	4,150.2	26.7%	4,280.4	26.6%
BBB	5,925.0	38.0%	7,084.0	44.0%
BB	499.9	3.2%	459.0	2.9%
B and below	1,267.5	8.1%	380.3	2.4%
Total	$ 15,578.3	100.0%	$ 16,088.9	100.0%

The increase in securities rated below investment grade by NSRSOs is largely attributable to the increase in non-agency RMBS securities. We evaluate the risk profile of our investments using the NAIC rating as is standard in our industry. Since 2009, the NAIC has utilized a process to assess the credit risk of non-agency RMBS and CMBS which does not rely on NSRSO ratings. Our activity in this category has focused on securities at appropriate purchase points that have a NAIC rating of 1. The remainder of the increase in the below investment grade area relates to the ramp up of the assets managed by Five Island as part of the reinsurance transaction with Front Street Cayman and downgrades from high grade to below investment grade of existing holdings.

The NAIC's Securities Valuation Office ("SVO") is responsible for the day-to-day credit quality assessment and valuation of securities owned by state regulated insurance companies. Insurance companies report ownership of securities to the SVO when such securities are eligible for regulatory filings. The SVO conducts credit analysis on these securities for the purpose of assigning an NAIC designation and/or unit price. Typically, if a security has been rated by an NRSRO, the SVO utilizes that rating and assigns an NAIC designation based upon the following system:

NAIC Designation	NRSRO Equivalent Rating
1	AAA/AA/A
2	BBB
3	BB
4	B
5	CCC and lower
6	In or near default

In November 2011, the NAIC membership approved continuation of a process developed in 2009 to assess non-agency residential mortgage-backed securities for the 2011 filing year that does not rely on NRSRO ratings. The NAIC retained the services of PIMCO Advisory to model each non-agency residential mortgage-backed security owned by U.S. insurers at year end 2011 and 2010. PIMCO Advisory has provided 5 prices for each security for life insurance companies to utilize in determining the NAIC designation for each residential mortgage-backed security based on each insurer's statutory book value price. This process is used to determine the level of risk-based capital ("RBC") requirements for non-agency residential mortgage-backed securities.

The tables below present FGL's fixed maturity securities by NAIC designation as of June 30, 2013 and September 30, 2012 (dollars in millions):

NAIC Designation	June 30, 2013			September 30, 2012		
	Amortized Cost	Fair Value	Percent of Total Fair Value	Amortized Cost	Fair Value	Percent of Total Fair Value
1	$ 8,951.7	$ 9,243.2	59.3%	$ 8,070.1	$ 8,634.0	53.6%
2	5,727.7	5,812.0	37.3%	6,569.1	7,047.4	43.8%
3	386.2	402.4	2.6%	381.3	386.4	2.4%
4	77.2	75.8	0.5%	8.5	8.8	0.1%
5	40.5	40.4	0.3%	8.2	8.2	0.1%
6	2.0	4.5	—%	3.8	4.1	—%
	$ 15,185.3	$ 15,578.3	100.0%	$ 15,041.0	$ 16,088.9	100.0%

Unrealized Losses

The amortized cost and fair value of fixed maturity securities and equity securities that were in an unrealized loss position as of June 30, 2013 and September 30, 2012 were as follows (dollars in millions):

	June 30, 2013				September 30, 2012			
	Number of securities	Amortized Cost	Unrealized Losses	Fair Value	Number of securities	Amortized Cost	Unrealized Losses	Fair Value
Fixed maturity securities, available for sale:								
United States Government full faith and credit	20	$ 204.3	$ (3.9)	$ 200.4	6	$ 0.9	$ (0.2)	$ 0.7
United States Government sponsored agencies	13	7.7	(0.4)	7.3	10	7.3	(0.1)	7.2
United States municipalities, states and territories	69	479.7	(27.4)	452.3	18	72.2	(1.1)	71.1
Corporate securities:								
Finance, insurance and real estate	171	1,834.1	(69.6)	1,764.5	31	241.7	(4.9)	236.8
Manufacturing, construction and mining	45	484.1	(36.5)	447.6	10	95.6	(3.0)	92.6
Utilities and related sectors	69	513.2	(17.4)	495.8	7	48.5	(0.4)	48.1
Wholesale/retail trade	45	364.6	(12.9)	351.7	7	59.1	(1.3)	57.8
Services, media and other	55	497.0	(27.1)	469.9	4	21.9	(0.4)	21.5
Hybrid securities	9	119.2	(3.1)	116.1	8	130.7	(9.6)	121.1
Non-agency residential mortgage-backed securities	76	334.0	(9.3)	324.7	26	119.0	(4.3)	114.7
Commercial mortgage-backed securities	8	29.4	(0.7)	28.7	9	13.9	(2.4)	11.5
Asset-backed securities	49	382.8	(4.6)	378.2	17	178.9	(1.6)	177.3
Equity securities	14	129.4	(4.6)	124.8	3	45.8	(1.3)	44.5
	643	$ 5,379.5	$ (217.5)	$ 5,162.0	156	$ 1,035.5	$ (30.6)	$ 1,004.9

The gross unrealized loss position on the portfolio at June 30, 2013, was $217.5 million, a decline from $30.6 million at September 30, 2012. The following is a description of the factors causing the unrealized losses by investment category as of June 30, 2013:

Through June 30, 2013, Treasury yields climbed as concerns about the cessation of Federal Reserve stimulus affected market participants. Bond mutual fund flows turned sharply negative in the last months of the quarter,

and fixed income security prices declined accordingly. Longer dated assets, such as municipal bonds, were particularly affected and account for $27.4 million of the unrealized loss position; to date, this sector has not seen material price movements and FGL views the recent price action in municipal bonds as largely interest-rate related. Finance and finance-related corporates and hybrids remain the largest component of the $72.7 million unrealized loss position. FGL views the increase in the unrealized loss position as a function of higher Treasury yields. The unrealized loss position in non-agency RMBS increased from $4.3 million to $9.3 million as the risk-off trade affected more market sensitive asset classes, and as concerns about the strength and duration of the housing recovery affected real estate sensitive assets. These recent developments notwithstanding, FGL continues to see the underlying fundamentals in this asset class as supportive, and ultimately, less subject to interest rate volatility. FGL continues to find opportunities in non-agency residential mortgage-backed holdings, generally targeting those securities with NAIC-1 ratings.

The amortized cost and fair value of fixed maturity securities and equity securities (excluding United States Government and United States Government sponsored agency securities) in an unrealized loss position greater than 20% and the number of months in an unrealized loss position with fixed maturity securities that carry an NRSRO rating of BBB/Baa or higher considered investment grade as of June 30, 2013, were as follows:

As of June 30, 2013 FGL held 6 securities that had unrealized losses greater than 20% that were in an unrealized loss position less than 6 months, FGL didn't hold any securities that were in an unrealized loss position greater than 6 months but less than 12 months and FGL held 2 securities that were in an unrealized loss position greater than 12 months. This included 6 investment grade securities (NRSRO rating of BBB/Baa or higher) with an amortized cost and estimated fair value of $33.6 million and $25.2 million, respectively as well as 2 securities below investment grade with an amortized cost and estimated fair value of less than $0.1 million in both periods.

As of September 30, 2012 FGL held 4 securities that had unrealized losses greater than 20% that were in an unrealized loss position greater than 6 months and 1 security that was in an unrealized loss position greater than 12 months. This included 3 investment grade securities (NRSRO rating of BBB/Baa or higher) with an amortized cost and estimated fair value of $2.6 million and $0.9 million, respectively, as well as 2 securities below investment grade with an amortized cost and estimated fair value of $0.8 million and $0.5 million, respectively.

	June 30, 2013				September 30, 2012			
	Number of securities	Amortized Cost	Fair Value	Gross Unrealized Losses	Number of securities	Amortized Cost	Fair Value	Gross Unrealized Losses
Investment grade:								
Less than six months	4	$ 33.2	$ 25.2	$ (8.0)	—	$ —	$ —	$ —
Six months or more and less than twelve months	—	—	—	—	3	2.6	0.9	(1.7)
Twelve months or greater	2	0.4	—	(0.4)	—	—	—	—
Total investment grade	6	33.6	25.2	(8.4)	3	2.6	0.9	(1.7)
Below investment grade:								
Less than six months	2	—	—	—	—	—	—	—
Six months or more and less than twelve months	—	—	—	—	1	0.8	0.5	(0.3)
Twelve months or greater	—	—	—	—	1	—	—	—
Total below investment grade	2	—	—	—	2	0.8	0.5	(0.3)
Total	8	$ 33.6	$ 25.2	$ (8.4)	5	$ 3.4	$ 1.4	$ (2.0)

Exposure to European Sovereign Debt

FGL had no exposure to foreign sovereign debt at June 30, 2013.

Other-Than-Temporary Impairments and Watch List

FGL has a policy and process in place to identify securities in its investment portfolio for which it should recognize impairments.

At each balance sheet date, FGL identifies invested assets which have characteristics (i.e. significant unrealized losses compared to amortized cost and industry trends) creating uncertainty as to FGL's future assessment of an other-than-temporary impairment. As part of this assessment, FGL reviews not only a change in current price relative to its amortized cost but the issuer's current credit rating and the probability of full recovery of principal based upon the issuer's financial strength. Specifically for corporate issues, FGL evaluates the financial stability and quality of asset coverage for the securities relative to the term to maturity for the issues FGL owns. On a quarterly basis, FGL reviews structured securities for changes in default rates, loss severities and expected cash flows for the purpose of assessing potential other-than-temporary impairments and related credit losses to be recognized in operations. A security which has a 20% or greater change in market price relative to its amortized cost and a possibility of a loss of principal will be included on a list which is referred to as FGL's watch list. At June 30, 2013 and September 30, 2012, FGL's watch list included only 10 and 9 securities in an unrealized loss position with an amortized cost of $33.6 million and $4.0 million, unrealized losses of $8.4 million and $1.5 million, and fair value of $25.3 million and $2.5 million, respectively.

There were 6 and 9 structured securities on the watch list as of June 30, 2013 and September 30, 2012, respectively. FGL's analysis of these structured securities included cash flow testing results which demonstrated the June 30, 2013 carrying values were fully recoverable.

Available-For-Sale Securities

For additional information regarding FGL's available-for-sale securities, including the amortized cost, gross unrealized gains (losses), and fair value of available-for-sale securities as well as the amortized cost and fair value of fixed maturity available-for-sale securities by contractual maturities as of June 30, 2013 refer to Note 4, Investments, to our Condensed Consolidated Financial Statements.

Net Investment Income and Net investment gains (losses)

For discussion regarding FGL's net investment income and net investment gains refer to Note 4, Investments, to our Condensed Consolidated Financial Statements.

Concentrations of Financial Instruments

For detail regarding FGL's concentration of financial instruments refer to Note 4, Investments, to our Condensed Consolidated Financial Statements.

Derivatives

For additional information regarding FGL's derivatives refer to Note 5, Derivative Financial Instruments, to our Condensed Consolidated Financial Statements.

FGL is exposed to credit loss in the event of nonperformance by its counterparties on the call options. FGL attempts to reduce the credit risk associated with such agreements by purchasing such options from large, well-established financial institutions.

FGL will also hold cash and cash equivalents received from counterparties for call option collateral, as well as Government securities pledged as call option collateral, if its counterparty's net exposures exceed pre-determined thresholds. See Note 5, Derivative Financial Instruments, for additional information regarding FGL's exposure to credit loss on call options.

HGI Energy and the EXCO/HGI JV

The EXCO/HGI JV's primary sources of capital resources and liquidity are internally generated cash flows from operations and borrowing capacity under the EXCO/HGI JV Credit Agreement. While the EXCO/HGI JV believes that the existing capital resources, including cash flows from operations and borrowing capacity under the EXCO/

HGI JV Credit Agreement, will be sufficient to conduct its operations in the foreseeable future, there are certain risks arising from the declines in oil and natural gas prices that could impact the EXCO/HGI JV's ability to meet debt covenants in future periods. In particular, the ratio of consolidated funded indebtedness to consolidated earnings before interest, taxes, depreciation, amortization and exploration expenses ("EBITDAX"), as defined in the EXCO/HGI JV Credit Agreement, is computed using a last quarter annualized computation of EBITDAX. After the first year of the EXCO/HGI JV's operations, EBITDAX is computed based on the trailing twelve month period. As a result, the EXCO/HGI JV's ability to maintain compliance with this covenant is negatively impacted when oil and/or natural gas prices and production decline over an extended period of time.

The total fiscal 2013 capital budget for the EXCO/HGI JV is $20.2 million on a consolidated basis. The EXCO/HGI JV plans to run one rig in its Permian area primarily targeting the Canyon Sand formation. The capital program also includes recompletion projects in North Louisiana targeting the Hosston formation. The EXCO/HGI JV's program targets high probability of success projects that provide acceptable rates of return in the current commodity price environment.

The following table presents a proportionate interest in the EXCO/HGI JV's capital expenditures for the period from inception to June 30, 2013 and the expected capital expenditures for the remainder of 2013.

	From Inception to the Period Ended June 30,	July-September Forecast	Full Year Forecast
(in millions)	**2013**	**2013**	**2013**
Capital expenditures:			
Development capital	$ 13.1	$ 5.1	$ 18.2
Gas gathering and water pipelines	0.1	0.1	0.2
Lease acquisitions and seismic	—	—	—
Corporate and other	1.2	0.6	1.8
Total	$ 14.4	$ 5.8	$ 20.2
HGI's Proportionate 74.5% Share	$ 10.7	$ 4.3	$ 15.0

The EXCO/HGI JV believes its current capital expenditure budget for 2013 will meet its operational objectives while maintaining sufficient liquidity. The following table presents HGI's proportionate interest and the consolidated EXCO/HGI JV's liquidity and financial position as of June 30, 2013:

	HGI's Proportionate Interest	EXCO/HGI JV
(in millions)	**June 30, 2013**	**June 30, 2013**
Borrowings under the EXCO/HGI JV Credit Agreement	$ 274.9	$ 369.0
Cash	12.8	17.2
Net debt	$ 262.1	$ 351.8
Borrowing base	$ 350.2	$ 470.0
Unused borrowing base (1)	74.9	100.5
Unused borrowing base plus cash (1)	87.7	117.7

(1) Net of letters of credit.

Events affecting liquidity

Although weaknesses in natural gas prices continue, the EXCO/HGI JV believes that its capital resources from existing cash balances, anticipated cash flow from operating activities and available borrowing capacity under the EXCO/HGI JV Credit Agreement will be adequate to execute its corporate strategies and to meet debt service obligations. The EXCO/HGI JV expects the natural gas markets to continue to experience an extended period of low prices due to excess supply. Accordingly, the EXCO/HGI JV is carefully monitoring its capital budget and may implement further initiatives to provide additional liquidity.

Other factors which could impact the EXCO/HGI JV's liquidity, capital resources and capital commitments in 2013 and future years include (i) the results of its ongoing drilling programs; (ii) its ability to reduce and maintain lower operating, general and administrative expenses and capital expenditure programs in response to volatile oil and natural gas prices; (iii) the percentage of its production covered by derivative financial instruments; (iv) potential acquisitions and/or sales of oil and natural gas properties or other assets; (v) reductions to its borrowing base; and (vi) its ability to maintain compliance with debt covenants as a result of volatile oil and natural gas prices.

As of June 30, 2013, EXCO/HGI JV's consolidated debt was $274.9 million which consisted of its proportionate share of the EXCO/HGI JV Credit Agreement. The total borrowings under the EXCO/HGI Credit Agreement were $369.0 million and the borrowing base was $470.0 million. The agreement contains certain restrictions that require that the EXCO/HGI JV maintain certain financial covenants.

As of June 30, 2013, the EXCO/HGI JV was in compliance with each of the financial covenants under the EXCO/HGI JV Credit Agreement:

- the EXCO/HGI JV's consolidated current ratio (as defined in the agreement) of 3.5 to 1.0 exceeded the minimum of at least 1.0 to 1.0 as of the end of the fiscal quarter; and
- the EXCO/HGI JV's ratio of consolidated funded indebtedness (as defined in the agreement) to consolidated EBITDAX (as defined in the agreement) of 3.7 to 1.0 did not exceed the maximum of 4.5 to 1.0 at the end of the fiscal quarter.

Derivative financial instruments

The EXCO/HGI JV uses oil and natural gas derivatives and financial risk management instruments to manage its exposure to commodity prices. The EXCO/HGI JV does not designate these instruments as hedging instruments for financial accounting purposes and, accordingly, recognizes the change in the respective instruments' fair value currently in earnings, as a gain or loss on oil and natural gas derivatives on financial risk management instruments.

The EXCO/HGI JV has entered into derivative contracts for approximately 76.8% of production volumes for the three months ended June 30, 2013 and approximately 69.7% of production volumes for the period from inception to June 30, 2013. In addition, the EXCO/HGI JV periodically enters into oil and natural gas derivative contracts for a portion of its production when market conditions are deemed favorable and oil and natural gas prices exceed minimum internal price targets.

The EXCO/HGI JV's objective in entering into oil and natural gas derivative contracts is to mitigate the impact of price fluctuations and achieve a more predictable cash flow associated with its operations. The EXCO/HGI JV's oil and natural gas derivative instruments are currently comprised of swap contracts. Swap contracts allow it to receive a fixed price and pay a floating market price to the counterparty for the hedged commodity. These transactions limit exposure to declines in prices, but also limit the benefits the EXCO/HGI JV would realize if oil and natural gas prices increase. As of June 30, 2013, the EXCO/HGI JV had derivative financial instruments in place for the volumes and prices shown below:

	NYMEX gas volume - Mmmbtu	Weighted average contract price per Mmbtu	NYMEX oil volume - Mbbls	Weighted average contract price per Bbls
Swaps:				
Q4 2013	5,140.0	$ 3.72	103.0	$ 94.05
Q1 2014	5,141.0	$ 3.72	103.0	$ 94.05
Q2 2014 through Q1 2015	10,877.0	$ 4.14	272.0	$ 91.87

The EXCO/HGI JV's natural gas and oil derivative instruments are comprised of swap contracts. Swap contracts allow it to receive a fixed price and pay a floating market price to the counterparty for the hedged commodity.

Discussion of Consolidated Cash Flows

Summary of Consolidated Cash Flows

Presented below is a table that summarizes the cash provided or used in our activities and the amount of the respective increases or decreased in cash provided or used from those activities between the fiscal periods (in millions):

	Fiscal Nine Months		
Cash provided by (used in):	**2013**	**2012**	**Increase / (Decrease)**
Operating activities	$ 94.0	$ 204.7	$ (110.7)
Investing activities	(2,200.0)	232.8	(2,432.8)
Financing activities	1,884.0	259.3	1,624.7
Effect of exchange rate changes on cash and cash equivalents	(5.0)	(1.4)	(3.6)
Net increase in cash and cash equivalents	$ (227.0)	$ 695.4	$ (922.4)

Operating Activities

Cash provided by operating activities totaled $94.0 million for the Fiscal 2013 Nine Months as compared to cash provided of $204.7 million for the Fiscal 2012 Nine Months. The $110.7 million decline was the result of (i) a $43.5 million increase in cash provided by the Insurance segment; (ii) a $20.8 million increase in cash provided by the Energy segment; and (iii) a $1.1 million increase in cash provided by the Financial Services segment; offset by (iv) a $162.4 million increase in cash used by the Corporate and Other segment; and (v) a $13.7 million increase in cash used by the Consumer Products segment.

The $162.4 million increase in cash used by the operating activities in the Corporate and Other segments was primarily due to (i) a $88.7 million decrease in cash provided in the Fiscal 2012 Nine Months from excess of sales over purchases of trading securities acquired for resale, (ii) the non-recurrence in the Fiscal 2013 Nine Months of the return of $49.3 million cash collateral posted for an FGL subsidiary in the Fiscal 2012 Nine Months, (iii) a $6.9 million increase in cash bonus compensation payments made in the Fiscal 2013 Nine Months, (vi) a $9.0 million increase in transaction and acquisition related expenditures, primarily resulting from the EXCO/HGI JV transaction. and (vii) a $6.7 million increased use of cash due to higher levels of general and administrative expenses.

The Insurance segment’s $43.5 million increase in cash provided by operating activities is primarily due to (i) a decrease in transfers of cash to reinsurers relating to a reinsurance transaction in the Fiscal 2012 Nine Months; (ii) a decrease in policy acquisition and operating expenses; and (iii) an increase in cost of insurance fees, offset by (i) an increase in index credits, interest credited and bonuses; and (ii) a decrease investment income. The increase in index credits, interest credited and bonuses is due to strong performance of the S&P 500 during the year and first time credits on annual point to point policies on the new Prosperity Elite product line which had a high volume of sales in the Fiscal 2012 Nine Months.

The $13.7 million increase in cash used by operating activities in the Consumer Products segment was primarily due to a $54 million increased use of cash for working capital, $48 million higher cash payments for interest primarily due to the financing of the Hardware Acquisition, and $18 million higher cash payments for acquisition and integration related activities. These increases in uses of cash where partially offset by higher earnings of $102 million. The $54 million increase in cash used for working capital and other items was driven by increases in accounts receivable, decreases in payroll and a net increase from changes in other assets and liabilities, partially offset by decreases in inventory.

Investing Activities

Cash used by investing activities was $2,200.0 million for the Fiscal 2013 Nine Months, as compared to cash provided of $232.8 million for the Fiscal 2012 Nine Months. The $2,432.8 million decrease in cash provided by investing activities is principally due to (i) an increase in net cash used in acquisitions of $1,828.6 million, (ii) an increase in cash used to originate $177.3 million, net, of asset-backed loans in the Fiscal 2013 Nine Months and (iii) a $400.8 million decrease in cash provided from sales, maturities and repayments, net of purchases, of fixed maturity securities and other investments principally by FGL. The $1,828.6 million increase in net cash used from

acquisitions relates primarily to (i) the $1,351.1 million, net of cash acquired, acquisition of the HHI Business, including TLM Taiwan; (ii) the $48.7 million acquisition of Shaser; and (iii) the $517.5 million, net of cash acquired, and $97.5 million acquisitions of our equity interests in the EXCO/HGI JV and the shallow Cotton Valley oil and natural gas properties, in the Fiscal 2013 Nine Months, as compared to (i) the $139.4 million of net cash used from the acquisition of FURminator, Inc., net of cash acquired, and (ii) the $43.8 million acquisition of Black Flag, net of cash acquired, in the Fiscal 2012 Nine Months.

Financing Activities

Cash provided by financing activities was $1,884.0 million for the Fiscal 2013 Nine Months compared to cash provided of $259.3 million for the Fiscal 2012 Nine Months. The $1,624.7 million increase in cash provided by financing activities was primarily related to (i) a $2,428.9 million increase in cash provided from the proceeds of issuances of debt, (ii) a $345.6 million increase in cash provided from the ABL Facility and the EXCO/HGI Credit Agreement, (iii) a $11.1 million decrease in cash used to purchase Spectrum Brands' common stock by HGI, offset by (iv) the increased use of cash of $586.0 million, net, for repayment of debt, (v) a decrease in cash provided of $475.9 million from the issuance of, net of redemptions and benefit payments on, investment contracts including annuity and universal life insurance contracts by FGL, and (vi) a $1.6 million increase in cash used for dividends paid by HGI on its Preferred Stock. The $586.0 million, net, increase use of cash for repayment of debt is primarily as a result of the $545.9 million repayment of the 10.625% Notes by HGI, including a bond call/tender premium, and the $370.2 million repayment by Spectrum Brands of its former term loan facility in the Fiscal 2013 Nine Months, offset by cash used by FGL of $95.0 million to settle a surplus note payable and cash used by Spectrum Brands of $270.0 million to settle its prior 12% Senior Subordinated Toggle Notes due 2019, inclusive of a bond tender/call premium, in the Fiscal 2012 Nine Months,

Debt Financing Activities

HGI

In December 2012, we issued $700.0 aggregate principal amount 7.875% Notes and used part of the proceeds of the offering to accept for purchase $498.0 aggregate principal amount of our 10.625% Notes pursuant to the Tender Offer for the 10.625% Notes. Additionally, we deposited sufficient funds in trust with the trustee under the indenture governing the 10.625% Notes for the Satisfaction and Discharge of the remaining $2.0 million aggregate principal amount of the 10.625% Notes.

As a result of the Satisfaction and Discharge, the trustee became the primary obligor for payment of the remaining 10.625% Notes on or about the call date of the Satisfaction and Discharge on December 21, 2012. We have a contingent obligation for payment of the 10.625% Notes were the trustee to default on its payment obligations. We believed the risk of such default is remote and therefore had not recorded a related liability. The remaining 10.625% Notes were redeemed by the trustee on January 23, 2013. In connection with the Tender Offer and Satisfaction and Discharge, we recorded $58.9 million of charges to "Interest expense" in the Condensed Consolidated Statements of Operations for the nine months ended June 30, 2013, consisting of $45.7 million cash charges for fees and expenses related to the Tender Offer, $0.2 million cash charges related to the Satisfaction and Discharge and $13.0 million of non-cash charges for the write down of debt issuance costs and net unamortized discount.

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

In connection with the 7.875% Note offering we recorded $20.0 million of fees during the nine months ended June 30, 2013. These fees are classified as "Other assets" in the accompanying Condensed Consolidated Balance Sheets as of June 30, 2013, and are being amortized to interest expense utilizing the effective interest method over the term of the 7.875% Notes.

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

The Indenture governing the 7.875% Notes contains covenants limiting, among other things, and subject to certain qualifications and exceptions, our ability, and, in certain cases, the ability of our subsidiaries, to incur additional indebtedness; create liens; engage in sale-leaseback transactions; pay dividends or make distributions in respect of capital stock; make certain restricted payments; sell assets; engage in transactions with affiliates; or consolidate or merge with, or sell substantially all of our assets to, another person. We are 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 collateral, including our equity interests in Spectrum Brands and our other subsidiaries such as HFG and HGI Funding LLC. At June 30, 2013, we were in compliance with all covenants under the indenture governing the 7.875% Notes.

In July 2013, we issued $225.0 million aggregate principal amount of additional 7.875% Notes under the same Indenture governing the 7.875% Notes issued in December 2012.

Spectrum Brands

In December 2012, Spectrum Brands assumed $520.0 million aggregate principal amount of 6.375% Senior Notes due 2020 and $570.0 million aggregate principal amount of 6.625% Senior Notes due 2022 in connection with the Hardware Acquisition. Spectrum Brands used the net proceeds from the offering to fund a portion of the purchase price and related fees and expenses for the Hardware Acquisition. Spectrum Brands financed the remaining portion of the Hardware Acquisition with the new Term Loan consisting of a $800.0 million term loan facility, of which $100.0 million is in Canadian dollar equivalents. A portion of the Term Loan proceeds were also used to refinance the former term loan facility, maturing June 17, 2016, which had an aggregate amount outstanding of $370.2 million prior to refinancing.

At June 30, 2013, the aggregate amount of principal outstanding under Spectrum Brands' debt instruments was as follows: (i) $757.5 million under the Term Loan, maturing December 17, 2019; (ii) $950.0 million under the 9.5% Notes, maturing June 15, 2018; (iii) $520.0 million under the 6.375% Notes, maturing November 15, 2020; (iv) $570.0 million under the 6.625% Notes, maturing November 15, 2022; (v) $300.0 million under the 6.75% Notes, maturing March 15, 2020; and (iv) $69.5 million under the ABL Facility, expiring May 3, 2016 (together with the Term Loan, the 6.375% Notes, the 6.625% Notes, the 6.75% Notes and the 9.5% Notes, the "Senior Credit Facilities").

At June 30, 2013, Spectrum Brands was in compliance with all covenants under the Senior Credit Agreement, the indenture governing the 9.5% Notes, the indenture governing the 6.375% Notes and the 6.625% Notes, the indenture governing the 6.75% Notes and the credit agreement governing the ABL Facility.

See Note 10, Debt, to our Condensed Consolidated Financial Statements for additional information regarding Spectrum Brands' debt activity during the Fiscal 2013 Quarter.

Interest Payments and Fees

In addition to principal payments on the Senior Credit Facilities, Spectrum Brands has annual interest payment obligations of approximately $218.2 million in the aggregate. This includes $90.3 million the 9.5% Notes, $33.2 million in the aggregate under the 6.375% Notes, $37.8 million in the aggregate under the 6.625% Notes, and approximately $20.4 million in the aggregate under the 6.75% Notes, and interest under Spectrum Brands' ABL Facility of $1.5 million. Based on principal amounts currently outstanding under these facilities, and using market interest rates and foreign exchange rates in effect at June 30, 2013, this also includes interest under our Term Loan of approximately $35.0 million. Interest on the 9.5% Notes, 6.375% Notes, 6.625% Notes and the 6.75% Notes is payable semi-annually in arrears and interest under the Term Loan and the ABL Facility is payable on various

interest payment dates as provided in the Senior Credit Agreement and the ABL Credit Agreement. Spectrum Brands is required to pay certain fees in connection with the Senior Credit Facilities. Such fees include a quarterly commitment fee of up to 0.375% on the unused portion of the ABL Revolving Credit Facility and certain additional fees with respect to the letter of credit sub-facility under the ABL Revolving Credit Facility.

FGL

In March 2013, FGL issued $300.0 million of its 6.375% aggregate principal amount senior notes, due April 1 , 2021, at par value. FGL used a portion of the net proceeds from the issuance to pay a dividend to HGI and expects to use the remainder for general corporate purposes, to support the growth of its subsidiary life insurance company.

On April 7, 2011, a wholly-owned reinsurance subsidiary of FGL issued a $95.0 million surplus note to the prior owner of FGL. 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 at face value without the payment of interest.

EXCO/HGI JV

At June 30, 2013, our share of the aggregate amount outstanding under the EXCO/HGI JV Credit Agreement was $274.9 million. See the discussion above, and in Note 10, Debt, to our Condensed Consolidated Financial Statements, for additional information regarding the EXCO/HGI JV's debt activity during the Fiscal 2013 Quarter.

Series A and Series A-2 Participating Convertible Preferred Stock

On May 13, 2011 and August 5, 2011, we issued 280,000 shares of Series A Preferred Stock and 120,000 shares of Series A-2 Preferred Stock, respectively, in private placements for total gross proceeds of $400.0 million. 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 our 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%, 2% or 0% dependent on whether we achieve specified rates of growth measured by increases in the Preferred Stock NAV. As previously discussed, such rate was reduced from 4% to 2% effective April 1, 2012 through September 30, 2012, and was further reduced to a zero rate of accretion subsequent to September 30, 2012. This zero rate of accretion will be effective for the remainder of Fiscal 2013, but it could increase to an annualized rate of 2% or 4% in subsequent periods based upon changes in the Preferred Stock NAV. 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.

Equity Financing Activities

During the Fiscal 2013 Nine Months, we granted restricted stock awards representing approximately 3.3 million shares to our employees and our directors. All vesting dates are subject to the recipient's continued employment with us, except as otherwise permitted by our Board of Directors, or in certain cases if the employee is terminated without cause. The total market value of the restricted shares on the date of grant was approximately $27.7 million which represented unearned restricted stock compensation. Unearned compensation is amortized to expense over the appropriate vesting period.

Also during the Fiscal 2013 Nine Months, our Principal Stockholders sold 23.0 million of our shares of common stock, par value of $0.01 per share, in a secondary offering to the public, at a price of $7.50 per share, pursuant to an effective shelf registration statement on Form S-3. We did not sell any shares in the offering and will not receive any of the proceeds from the sale of the shares by our Principal Stockholders.

Contractual Obligations

At June 30, 2013, there have been no material changes to the contractual obligations as set forth in our Form 10-K except for: (i) our issuance of $700.0 million aggregate principal amount of the 7.875% Notes due 2019, (ii) Spectrum Brands' issuance of respectively $520.0 million and $570.0 million aggregate principal amount of the 6.375% Notes due 2020 and 6.675% Notes due 2022, respectively, and its refinancing of its prior term loan with

a new $800.0 million senior secured term loan, (iii) FGL's issuance of $300.0 million aggregate principal amount of their 6.375% Notes due 2021, (iv) HGI Energy's $274.9 million proportionate share of the EXCO/HGI JV Credit Agreement, and (v) the $57.5 million of unaffiliated obligation from Salus' collateralized loan obligation securitization, as discussed in Note 10, Debt, to our Condensed Consolidated Financial Statements.

Shareholder Contingencies

The Master Fund has pledged all of its shares of our common stock, together with securities of other issuers, to secure a certain portfolio financing, which as of the date hereof, constitutes a majority of the outstanding shares of our common stock. The sale or other disposition of a sufficient number of our shares (including any foreclosure on or sale of the shares pledged as collateral) to non-affiliates could cause HGI and its subsidiaries to experience a change of control, which may accelerate certain of HGI's and its subsidiaries' debt instruments and other obligations (including the 7.875% Notes and Preferred Stock) and/or allow certain counterparties to terminate their agreements. Any such sale or disposition may also cause HGI and its subsidiaries to be unable to utilize certain of their net operating loss carryforwards and other tax attributes for income tax purposes.

Off-Balance Sheet Arrangements

Throughout our history, we have entered into indemnifications in the ordinary course of business with our customers, suppliers, service providers, business partners and in certain instances, when we sold businesses. Additionally, we have indemnified our directors and officers who are, or were, serving at our request in such capacities. Although the specific terms or number of such arrangements is not precisely known due to the extensive history of our past operations, costs incurred to settle claims related to these indemnifications have not been material to our financial statements. We have no reason to believe that future costs to settle claims related to our former operations will have a material impact on our 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 OM Group (UK) Limited ("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. We are not aware of any events or transactions that resulted in non-compliance with the Guarantee and Pledge Agreement.

Through Salus, we enter into commitments to extend credit to meet the financing needs of its asset based lending customers upon the satisfaction of certain conditions. At June 30, 2013 the notional amount of the unfunded portion of such commitments was approximately $150.4 million, of which $25.8 million expires in one year or less, and the remainder expires between one and four years.

Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Actual results could differ materially from those estimates. There have been no material changes to the critical accounting policies and estimates as discussed in our Form 10-K, except for the new policies and procedures adopted during the quarter as a result of the acquisition of an equity interest in an oil and natural gas concern, the securitization of certain asset-backed loan receivables, and the change in our accounting policy related to the classification of share based award income tax withholding payments within the Condensed Consolidated Statements of Cash Flows. These additional or modified accounting policies and procedures are detailed in Note 2, Basis of Presentation, Significant Accounting Policies and Procedures and Recent Accounting Pronouncements, included in the accompanying Condensed Consolidated Financial Statements.

Recent Accounting Pronouncements Not Yet Adopted

Offsetting Assets and Liabilities

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

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

Market Risk Factors

Market risk is the risk of the loss of fair value resulting from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, commodity prices 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.

Through Spectrum Brands, we have market risk exposure from changes in interest rates, foreign currency exchange rates, and commodity prices. Spectrum Brands uses derivative financial instruments to mitigate the risk from such exposures, when appropriate. Through FGL, we are primarily exposed to interest rate risk and equity price risk and have some exposure to credit risk and counterparty risk, which affect the fair value of financial instruments subject to market risk. Additionally, HGI is exposed to market risk with respect to its short-term investments and an embedded derivative liability related to its Preferred Stock.

Equity Price Risk

HGI

HGI is exposed to equity price risk since it uses a portion of its excess cash to acquire marketable equity securities, which as of June 30, 2013, are all classified as trading within "Investments – Equity securities" in the Condensed Consolidated Balance Sheets. HGI follows a trading policy approved by its board of directors which sets certain restrictions on the amounts and types of securities it may acquire. In addition, HGI is exposed to equity price risk related to the embedded equity conversion feature of its Preferred Stock which is required to be separately accounted for as a derivative liability under US GAAP.

FGL

FGL is primarily exposed to equity price risk through certain insurance products that are exposed to equity price risk, specifically those products with guaranteed minimum withdrawal benefits. FGL offers a variety of FIA contracts with crediting strategies linked to the performance of indices such as the S&P 500 Index, Dow Jones Industrials or the NASDAQ 100 Index. The estimated cost of providing guaranteed minimum withdrawal benefits incorporates various assumptions about the overall performance of equity markets over certain time periods. Periods of significant and sustained downturns in equity markets, increased equity volatility, or reduced interest rates could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction in our net income. The rate of amortization of VOBA related to FIA products and the cost of providing guaranteed minimum withdrawal benefits could also increase if equity market performance is worse than assumed.

To economically hedge the equity returns on these products, FGL uses a portion of the deposit made by policyholders pursuant to the FIA contracts to purchase derivatives consisting of a combination of call options and future contracts on the equity indices underlying the applicable contracts. FGL's hedging strategy enables it to reduce its overall hedging costs and achieve a high correlation of returns on the derivatives purchased relative to the index credits earned by the FIA contractholders. The derivatives are used to fund the FIA contract index credits and the cost of the options purchased is treated as a component of spread earnings. To the extent index credits earned by the contractholder exceed the proceeds from option expirations and futures income, FGL incurs a raw hedging loss. The majority of the call options are one-year options purchased to match the funding requirements underlying the FIA contracts. FGL attempts to manage the costs of these purchases through the terms of its FIA contracts, which permit it to change caps or participation rates, subject to certain guaranteed minimums that must be maintained. See Note 5, Derivative Financial Instruments, to our Condensed Consolidated Financial Statements for additional details on the derivatives portfolio.

Fair value changes associated with these investments are intended to, but do not always, substantially offset the increase or decrease in the amounts added to policyholder account balances for index products. For the nine months ended June 30, 2013, the annual index credits to policyholders on their anniversaries were $216.3 million. Proceeds received at expiration on options related to such credits were $200.9 million. The shortfall is funded by FGL's investment spread earnings and futures income.

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

Interest Rate Risk

FGL

Interest rate risk is FGL's primary market risk exposure. Substantial and sustained increases or decreases in market interest rates can affect the profitability of the insurance products and fair value of investments, as the majority of FGL's insurance liabilities are backed by fixed maturity securities.

The profitability of most of FGL's products depends on the spreads between interest yield on investments and rates credited on insurance liabilities. FGL has the ability to adjust the rates credited (primarily caps and credit rates) on substantially all of the annuity liabilities at least annually (subject to minimum guaranteed values). In addition, substantially all of the annuity products have surrender and withdrawal penalty provisions designed to encourage persistency and to help ensure targeted spreads are earned. However, competitive factors, including the impact of the level of surrenders and withdrawals, may limit the ability to adjust or maintain crediting rates at levels necessary to avoid narrowing of spreads under certain market conditions.

In order to meet its policy and contractual obligations, FGL must earn a sufficient return on its invested assets. Significant changes in interest rates expose FGL to the risk of not earning anticipated interest earnings, or of not earning anticipated spreads between the interest rate earned on investments and the credited interest rates paid on outstanding policies and contracts. Both rising and declining interest rates can negatively affect interest earnings, spread income, as well as the attractiveness of certain products.

During periods of increasing interest rates, FGL may offer higher crediting rates on interest-sensitive products, such as indexed universal life insurance and fixed annuities, and it may increase crediting rates on in-force products to keep these products competitive. A rise in interest rates, in the absence of other countervailing changes, will result in a decline in the market value of FGL's investment portfolio.

As part of FGL's asset/liability management program, significant effort has been made to identify the assets appropriate to different product lines and ensure investing strategies match the profile of these liabilities. As such, a major component of managing interest rate risk has been to structure the investment portfolio with cash flow characteristics consistent with the cash flow characteristics of the insurance liabilities. FGL uses actuarial models to simulate cash flows expected from the existing business under various interest rate scenarios. These simulations enable FGL to measure the potential gain or loss in fair value of interest rate-sensitive financial instruments, to evaluate the adequacy of expected cash flows from assets to meet the expected cash requirements of the liabilities and to determine if it is necessary to lengthen or shorten the average life and duration of its investment portfolio. The "duration" of a security is the time weighted present value of the security's expected cash flows and is used to measure a security's sensitivity to changes in interest rates. When the durations of assets and liabilities are similar, exposure to interest rate risk is minimized because a change in value of assets should be largely offset by a change in the value of liabilities.

Spectrum Brands

Spectrum Brands has bank lines of credit at variable interest rates. The general level of United States and Canadian interest rates, LIBOR, CDOR and Euro LIBOR affect interest expense. Spectrum Brands periodically uses interest rate swaps to manage such risk. The net amounts to be paid or received under interest rate swap agreements are accrued as interest rates change, and are recognized over the life of the swap agreements as an adjustment to interest expense from the underlying debt to which the swap is designated. At June 30, 2013, Spectrum Brands had no outstanding interest rate derivative instruments.

The EXCO/HGI JV

At June 30, 2013, the EXCO/HGI JV's exposure to interest rate changes related primarily to borrowings under the EXCO/HGI JV Credit Agreement. Interest is payable on borrowings under the EXCO/HGI JV Credit Agreement based on a floating rate as more fully described in Note 10, Debt, to our Condensed Consolidated Financial

Statements. At June 30, 2013, HGI's proportionate share of outstanding borrowings under the EXCO/HGI JV Credit Agreement was approximately $274.9 million.

Foreign Exchange Risk

Spectrum Brands is subject to risk from sales and loans to and from its subsidiaries as well as sales to, purchases from and bank lines of credit with third-party customers, suppliers and creditors, respectively, denominated in foreign currencies. Foreign currency sales and purchases are made primarily in Euro, Pounds Sterling, Mexican Pesos, Canadian Dollars, Australian Dollars and Brazilian Reals. Spectrum Brands manages its foreign exchange exposure from anticipated sales, accounts receivable, intercompany loans, firm purchase commitments, accounts payable and credit obligations through the use of naturally occurring offsetting positions (borrowing in local currency), forward foreign exchange contracts, foreign exchange rate swaps and foreign exchange options.

Commodity Price Risk

Spectrum Brands

Spectrum Brands is exposed to fluctuations in market prices for purchases of zinc and brass used in the manufacturing process. Spectrum Brands uses commodity swaps and calls to manage such risk. The maturity of, and the quantities covered by, the contracts are closely correlated to the anticipated purchases of the commodities. The cost of calls is amortized over the life of the contracts and recorded in cost of goods sold, along with the effects of the swap and call contracts.

HGI Energy and the EXCO/HGI JV

The EXCO/HGI JV's objective in entering into derivative financial instruments is to manage its exposure to commodity price fluctuations, protect its returns on investments, and achieve a more predictable cash flow in connection with its financing activities and borrowings related to these activities. These transactions limit exposure to declines in prices, but also limit the benefits the EXCO/HGI JV would realize if oil and natural gas prices increase. When prices for oil and natural gas are volatile, a significant portion of the effect of the EXCO/HGI JV's derivative financial instrument management activities consists of non-cash income or expense due to changes in the fair value of its derivative financial instrument contracts. Cash losses or gains only arise from payments made or received on monthly settlements of contracts or if the EXCO/HGI JV terminates a contract prior to its expiration.

The EXCO/HGI JV's major market risk exposure is in the pricing applicable to its oil and natural gas production. Realized pricing is primarily driven by the prevailing worldwide price for crude oil and spot market prices for natural gas. Pricing for oil and natural gas production is volatile.

Credit Risk

FGL

FGL is exposed to the risk that a counterparty will default on its contractual obligation resulting in financial loss. The major source of credit risk arises predominantly in FGL's insurance operations’ portfolios of debt and similar securities. Credit risk for these portfolios is managed with reference to established credit rating agencies with limits placed on exposures to below investment grade holdings.

In connection with the use of call options, FGL is exposed to counterparty credit risk (the risk that a counterparty fails to perform under the terms of the derivative contract). FGL has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the financial loss from defaults. The exposure and credit rating of the counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst seven different approved counterparties to limit the concentration in one counterparty. FGL's policy allows for the purchase of derivative instruments from nationally recognized investment banking institutions with the equivalent of an S&P rating of A- or higher. Collateral support documents are negotiated to further reduce the exposure when deemed necessary. See Note 5, Derivative Financial Instruments, to our Condensed Consolidated Financial Statements for additional information regarding FGL’s exposure to credit loss.

Salus

Salus is exposed to the risk that some of its borrowers may be unable to repay their loans according to their contractual terms. This inability to repay could result in higher levels of nonperforming assets and credit losses, which could potentially reduce Salus' earnings.

Salus' asset-based loans are a financing tool where the loans are primarily based on the value of the borrowers' available collateral, which is typically accounts receivable, inventory or other such assets. This collateral is viewed as the primary source of repayment of the loans, while the borrowers' creditworthiness is viewed as a secondary source of repayment. Salus utilizes a loan structure and collateral monitoring technology that continuously focuses on the value of the available collateral, which reduces the risk of loss associated in delayed intervention and/or asset recovery.

As of June 30, 2013, none of Salus' outstanding loans were past due, and the carrying value of the outstanding loans represented approximately 62.8% of the eligible collateral for the loans. See Note 4, Investments, to our Condensed Consolidated Financial Statements, for further details on Salus' asset-based loan portfolio.

Sensitivity Analysis

The analysis below is hypothetical and should not be considered a projection of future risks. Earnings projections are before tax and noncontrolling interest.

Equity Price Risk — Trading

One means of assessing exposure to changes in equity market prices is to estimate the potential changes in market values on the investments resulting from a hypothetical broad-based decline in equity market prices of 10%. As of June 30, 2013, assuming all other factors are constant, we estimate that a 10% decline in equity market prices would have a $6.7 million adverse impact on HGI's trading portfolio of marketable equity securities.

Equity Price Risk — Other

Assuming all other factors are constant, we estimate that a decline in equity market prices of 10% would cause the market value of FGL's equity investments to decline by approximately $27.0 million and its derivative investments to decrease by approximately $48.2 million based on equity positions as of June 30, 2013. Because FGL's equity investments are classified as available-for-sale, the 10% decline would not affect current earnings except to the extent that it reflects other-than-temporary impairments.

As of June 30, 2013, assuming all other factors are constant, we estimate that a 10% increase in equity market prices would cause the fair value liability of the equity conversion feature of our Preferred Stock to increase by $24.1 million.

Interest Rate Risk

FGL

If interest rates were to increase one percentage point from levels at June 30, 2013, the estimated fair value of fixed maturity securities of FGL would decrease by approximately $867.4 million. The impact on stockholders' equity of such decrease (net of income taxes and VOBA and DAC adjustments) would be a decrease of $324.1 million in accumulated other comprehensive income and stockholders' equity. If interest rates were to decrease by one percentage point from levels at June 30, 2013, the estimated impact on the embedded derivative liability of such a decrease would be an increase of $103.4 million. The actuarial models used to estimate the impact of a one percentage point change in market interest rates incorporate numerous assumptions, require significant estimates and assume an immediate and parallel change in interest rates without any management of the investment portfolio in reaction to such change. Consequently, potential changes in value of financial instruments indicated by the simulations will likely be different from the actual changes experienced under given interest rate scenarios, and the differences may be material. Because FGL actively manages its investments and liabilities, the net exposure to interest rates can vary over time. However, any such decreases in the fair value of fixed maturity securities (unless related to credit concerns of the issuer requiring recognition of an other-than-temporary impairment) would generally be realized only if FGL was required to sell such securities at losses prior to their maturity to meet liquidity needs, which it manages using the surrender and withdrawal provisions of the annuity contracts and through other means.

The EXCO/HGI JV

A one percentage point change in interest rates (100 bps) based on the variable-rate borrowings outstanding as of June 30, 2013 of $274.9 million would result in an increase or decrease in the EXCO/HGI JV's interest expense of $2.7 million per year. The interest the EXCO/HGI JV pays on its borrowings is set periodically based upon market rates.

Foreign Exchange Risk

As of June 30, 2013, the potential change in fair value of outstanding foreign exchange derivative instruments of Spectrum Brands, assuming a 10% unfavorable change in the underlying exchange rates, would be a loss of $32.2 million. The net impact on reported earnings, after also including the effect of the change in the underlying foreign currency-denominated exposures, would be a net gain of $18.7 million.

Commodity Price Risk

Spectrum Brands

As of June 30, 2013, the potential change in fair value of outstanding commodity price derivative instruments of Spectrum Brands, assuming a 10% unfavorable change in the underlying commodity prices, would be a loss of $2.5 million. The net impact on reported earnings, after also including the reduction in cost of one year’s purchases of the related commodities due to the same change in commodity prices, would be an immaterial gain.

The EXCO/HGI JV

The EXCO/HGI JV's use of derivative financial instruments could have the effect of reducing its revenues and the value of its securities. For the period from inception to June 30, 2013, a $1.00 increase in the average commodity price per Mcfe would have resulted in an increase in cash settlement payments (or a decrease in settlements received) of approximately $7.6 million. The ultimate settlement amount of the EXCO/HGI JV's outstanding derivative financial instrument contracts is dependent on future commodity prices. The EXCO/HGI JV may incur significant unrealized losses in the future from its use of derivative financial instruments to the extent market prices increase and our derivatives contracts remain in place.

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision of the Company’s management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Based on that evaluation, the Company’s management, including the CEO and CFO, concluded that, as of June 30, 2013, the Company’s disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and is accumulated and communicated to the Company’s management, including the Company’s CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Notwithstanding the foregoing, there can be no assurance that the Company’s disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the Company’s periodic reports. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control objectives.

Changes in Internal Controls Over Financial Reporting

An evaluation was performed under the supervision of the Company's management, including the CEO and CFO, of whether any change in the Company's internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) occurred during the quarter ended June 30, 2013. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that no significant changes in the Company's internal controls over financial reporting occurred during the quarter ended June 30, 2013 that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Unless otherwise indicated in this quarterly report on Form 10-Q (this"10-Q") or the context requires otherwise, in this 10-Q, references to the "Company," "HGI," "we," "us" or "our" refer to Harbinger Group Inc. and, where applicable, its consolidated subsidiaries; "Harbinger Capital" refers to Harbinger Capital Partners LLC; "Harbinger Parties" or "Principal Stockholders" refer, collectively, to Harbinger Capital Partners Master Fund I, Ltd. (the "Master Fund"), Harbinger Capital Partners Special Situations Fund, L.P. and Global Opportunities Breakaway Ltd.; "HGI Funding" refers to HGI Funding, LLC; "Russell Hobbs" refers to Russell Hobbs, Inc. and, where applicable, its consolidated subsidiaries; "Spectrum Brands" refers to Spectrum Brands Holdings, Inc. and, where applicable, its consolidated subsidiaries; "SBI" refers to Spectrum Brands, Inc. and, where applicable, its consolidated subsidiaries; "HFG" refers to Harbinger F&G, LLC (formerly Harbinger OM, LLC);"FGL" refers to Fidelity & Guaranty Life Holdings, Inc. (formerly, Old Mutual U.S. Life Holdings, Inc.) and, where applicable, its consolidated subsidiaries; "Salus" refers to Salus Capital Partners, LLC and its subsidiaries; "Stanley Black & Decker" refers to Stanley Black & Decker, Inc.; "Five Island" refers to Five Island Asset Management LLC (formerly, HGI Asset Management LLC); "Front Street" refers to FS Holdco Ltd.; "Front Street Bermuda" refers to Front Street Re Ltd.; "Front Street Cayman" refers to Front Street Re (Cayman) Ltd.; "HGI Energy" refers to HGI Energy Holdings LLC; "HHI Business" refers to the hardware and home improvement business previously owned by Stanley Black & Decker and certain of its subsidiaries; "EXCO Parent" refers to EXCO Resources, Inc.; "EXCO" refers to EXCO Resources, Inc.; "HGI Energy" refers to HGI Energy Holdings, LLC; the "EXCO/HGI JV" refers to the oil and gas joint venture by HGI Energy and EXCO Parent; the "Energy Partnership" refers to EXCO/HGI Production Partners, LP; and the "Energy General Partner" refers to EXCO/HGI GP, LLC.

FORWARD-LOOKING STATEMENTS

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

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

Forward-looking statements may be preceded by, followed by or include the words "may," "will," "believe," "expect," "anticipate," "intend," "plan," "estimate," "could," "might," "seek," "project," or "continue" or the negative or other variations thereof or comparable terminology.

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

Forward-looking statements are not guarantees of performance. You should understand that the following important factors, in addition to those discussed under "Risk Factors," could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements.

HGI

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

- limitations on our ability to successfully identify additional suitable acquisition and investment opportunities and to compete for these opportunities with others who have greater resources;
- the need to provide sufficient capital to our operating businesses;
- our dependence on distributions from our subsidiaries to fund our operations and payments on our debt;
- the impact of covenants in the indenture, dated as of December 24, 2012 (the "2012 Indenture"), governing our $925 million 7.875% senior secured notes due 2019 (the "Senior Notes") and our preferred stock certificates of designation (together, the “Certificate of Designation”), and future financing or refinancing agreements, on our ability to operate our business and finance our pursuit of additional acquisition opportunities;
- the impact on our business and financial condition of our substantial indebtedness and the significant additional indebtedness and other financing obligations we and our subsidiaries may incur;
- the impact on the holders of our common stock if we issue additional shares of our common stock or preferred stock;
- the impact on the aggregate value of our assets and our stock price from changes in the market prices of publicly traded equity interests we hold, particularly during times of volatility in security prices;
- the impact of additional material charges associated with our oversight of acquired or target businesses and the integration of our financial reporting;
- the impact of restrictive stockholder agreements and securities laws on our ability to dispose of equity interests we hold;
- the impact of decisions by our controlling stockholders, whose interest may differ from those of our other stockholders, or their ceasing to remain controlling stockholders;
- the effect any interests of our officers, directors, stockholders and their respective affiliates may have in certain transactions in which we are involved;
- our dependence on certain key personnel;
- the impact of potential losses and other risks from changes in our portfolio of securities;
- our ability to effectively increase the size of our organization and manage our growth;
- the impact of a determination that we are an investment company or personal holding company;
- the impact of future claims arising from operations, agreements and transactions involving former subsidiaries;
- the impact of expending significant resources in considering acquisition targets or business opportunities that are not consummated;
- our ability to successfully integrate our recently acquired oil and gas joint venture into our existing operations and achieve the expected economic benefits;
- tax consequences associated with our acquisition, holding and disposition of target companies and assets;
- the impact of delays or difficulty in satisfying the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 or negative reports concerning our internal controls;
- the impact of the relatively low market liquidity for our common stock; and
- the effect of price fluctuations in our common stock caused by general market and economic conditions and a variety of other factors, including factors that affect the volatility of the common stock of any of our publicly held subsidiaries.

Spectrum Brands

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

- the impact of Spectrum Brands' substantial indebtedness on its business, financial condition and results of operations;
- the impact of restrictions in Spectrum Brands' debt instruments on its ability to operate its business, finance its capital needs or pursue or expand business strategies;
- any failure to comply with financial covenants and other provisions and restrictions of Spectrum Brands' debt instruments;
- Spectrum Brands' ability to successfully integrate the HHI Business and achieve the expected synergies from that integration at the expected costs;
- the impact of expenses resulting from the implementation of new business strategies, divestitures or current and proposed restructuring activities;
- the impact of fluctuations in commodity prices, costs or availability of raw materials or terms and conditions available from suppliers, including suppliers' willingness to advance credit;
- interest rate and exchange rate fluctuations;
- the loss of, or a significant reduction in, sales to any significant retail customer(s);
- competitive promotional activity or spending by competitors or price reductions by competitors;
- the introduction of new product features or technological developments by competitors and/or the development of new competitors or competitive brands;
- the effects of general economic conditions, including inflation, recession or fears of a recession, depression or fears of a depression, labor costs and stock market volatility or changes in trade, monetary or fiscal policies in the countries where Spectrum Brands does business;
- changes in consumer spending preferences and demand for Spectrum Brands' products;
- Spectrum Brands' ability to develop and successfully introduce new products, protect its intellectual property and avoid infringing the intellectual property of third parties;
- Spectrum Brands' ability to successfully implement, achieve and sustain manufacturing and distribution cost efficiencies and improvements, and fully realize anticipated cost savings;
- the cost and effect of unanticipated legal, tax or regulatory proceedings or new laws or regulations (including environmental, public health and consumer protection regulations);
- public perception regarding the safety of Spectrum Brands' products, including the potential for environmental liabilities, product liability claims, litigation and other claims;
- the impact of pending or threatened litigation;
- changes in accounting policies applicable to Spectrum Brands' business;
- government regulations;
- the seasonal nature of sales of certain of Spectrum Brands' products;
- the effects of climate change and unusual weather activity;
- the effects of political or economic conditions, terrorist attacks, acts of war or other unrest in international markets;
- the significant costs expected to be incurred in connection with the integration of Spectrum and the HHI Business;
- the risk that Spectrum Brands may become responsible for certain liabilities of the HHI Business;
- the risk that integrating Spectrum Brands' business with that of HHI Business may divert Spectrum Brands' management's attention;
- Spectrum Brands dedicating resources of the HHI Business to supply certain products and services to

Stanley Black & Decker, Inc. (“Stanley Black & Decker”) and its subsidiaries;

- general customer uncertainty related to the acquisition of the HHI Business;
- the limited period of time for which Spectrum Brands has the right to use certain Stanley Black & Decker trademarks, brand names and logos; and
- the reliance on Stanley Black & Decker and its subsidiaries for certain key services.

FGL and Front Street

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

- FGL's insurance subsidiaries' ability to maintain or improve their financial strength ratings;
- FGL's and its insurance subsidiaries' potential need for additional capital to maintain their financial strength and credit ratings and meet other requirements and obligations;
- FGL's ability to manage its business in a highly regulated industry, which is subject to numerous legal restrictions and regulations;
- the impact of covenants in the indenture governing FGL's $300 million 6.375% Senior Notes due 2021 (“FGL Notes”);
- availability of reinsurance and credit risk associated with reinsurance;
- the accuracy of FGL's assumptions and estimates regarding future events and ability to respond effectively to such events, including mortality, persistency, expenses and interest rates, tax liability, business mix, frequency of claims, contingent liabilities, investment performance, and other factors related to its business and anticipated results;
- the impact of interest rate fluctuations on FGL;
- FGL's ability to maintain or improve its credit ratings;
- the availability of credit or other financings and the impact of equity and credit market volatility and disruptions on both FGL's ability to obtain capital and the value and liquidity of FGL's investments;
- changes in the U.S. federal income tax laws and regulations that may affect the relative income tax advantages of FGL's products;
- FGL's ability to defend itself against litigation (including class action litigation) and respond to enforcement investigations or regulatory scrutiny;
- the performance of third parties including distributors and technology service providers, and providers of outsourced services;
- the impact of new accounting rules or changes to existing accounting rules on FGL;
- FGL's ability to protect its intellectual property;
- general economic conditions and other factors, including prevailing interest and unemployment rate levels and stock and credit market performance which may affect (among other things) FGL's ability to sell its products, its ability to access capital resources and the costs associated therewith, the fair value of its investments, which could result in impairments and other-than-temporary impairments, and certain liabilities, and the lapse rate and profitability of policies;
- regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) underwriting of insurance products and regulation of the sale, underwriting and pricing of products and minimum capitalization and statutory reserve requirements for insurance companies;
- the impact on FGL of man-made catastrophes, pandemics, computer viruses, network security breaches and malicious and terrorist acts;
- the impact of FGL's reinsurers, including Wilton Reassurance Company, failing to meet or timely meet their assumed obligations, increasing their reinsurance rates, or becoming subject to adverse developments that could materially adversely impact their ability to provide reinsurance to FGL at

consistent and economical terms;

- FGL's ability to compete in a highly competitive industry;
- the Front Street's reinsurance subsidiaries' ability to effectively implement their business strategy, including the need for capital; and
- the ability to maintain or obtain approval of the Maryland Insurance Administration and other regulatory authorities as required for FGL's operations and those of its insurance subsidiaries.

Salus

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

- Salus' ability to recover amounts that are contractually owed to it by its borrowers;
- Salus' ability to continue to address a number of issues to implement its strategy and grow its business;
- the impact on Salus resulting from further deterioration in economic conditions;
- Salus' ability to compete with traditional competitors and new market entrants;
- Salus' ability to attract and retain skilled people; and
- Salus' ability to address a variety of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft, operational errors and systems malfunctions.

HGI Energy

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

- fluctuations in oil and natural gas prices sold by EXCO/HGI JV;
- changes in the differential between NYMEX or other benchmark prices of oil and natural gas and the reference or regional index price used to price the EXCO/HGI JV's actual oil and natural gas sales;
- the EXCO/HGI JV not having any of its own employees and relying on employees supplied by EXCO and its subsidiaries;
- the failure to resolve any material disagreements with EXCO relating to the EXCO/HGI JV;
- the impact of the EXCO/HGI JV's substantial indebtedness on its business, financial condition and results of operations;
- the EXCO/HGI JV's ability to acquire or develop additional reserves, accurately evaluate reserve data or the exploitation potential of its properties, and control the development of its properties;
- the EXCO/HGI JV's ability to market and sell its oil and natural gas and its exposure to the credit risk of its customers and other counterparties and the risks associated with drilling activities;
- the inherent uncertainty of estimates of oil and natural gas reserves;
- the risk that the EXCO/HGI JV will be unable to identify or complete, or complete on economically attractive terms, the acquisition of additional properties;
- the ability of the EXCO/HGI JV's ability to successfully operate in a highly regulated and litigious environment, including exposure to operating hazards and uninsured risks;
- changes in the U.S. federal income tax laws and regulations that may affect the relative income tax advantages of HGI Energy's products;
- the impact of future and existing environmental regulations;
- the effects of climate change and unusual weather activity;
- the intense competition in the oil and gas industry in acquiring properties, contracting for drilling equipment and hiring experienced personnel; and

- the unavailability of pipelines or other facilities interconnected to the EXCO/HGI JV's gathering and transportation pipelines.

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

Item 1. Legal Proceedings

See Note 16 to the Company’s Condensed Consolidated Financial Statements included in Part I — Item 1. Financial Statements. There were no material developments relating to the matters discussed therein during the fiscal quarter ended June 30, 2013.

Item 1A. Risk Factors

Detailed discussions of our risk factors can be found in our Form 10-K for the fiscal year ended September 30, 2012, our Quarterly Report on Form 10-Q for the quarterly period ended December 30, 2012 and Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013 and as referenced in our current report filed on Form 8-K filed with the Securities and Exchange Commission in July 19, 2013. Any such risk factors could materially and adversely affect our or our subsidiaries' business, financial condition and results of operations, and these risk factors are not the only risks that we or our subsidiaries may face. Additional risks and uncertainties not presently known to us or our subsidiaries or that are not currently believed to be material also may adversely affect us or our subsidiaries.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description of Exhibits
10.1*	Employment Agreement, dated as of June 17, 2013 by and between the Company and Michael Kuritzkes.
18.1*	Preferability Letter from Independent Registered Public Accounting Firm Regarding Change in Accounting Principle.
31.1*	Certification of CEO Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of CFO Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of CEO Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of CFO Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.**
101.SCH	XBRL Taxonomy Extension Schema.**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.**
101.DEF	XBRL Taxonomy Definition Linkbase.**
101.LAB	XBRL Taxonomy Extension Label Linkbase.**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.**

* Filed herewith
** Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HARBINGER GROUP INC.
(Registrant)

Dated: August 8, 2013

By: /S/ THOMAS A. WILLIAMS

Executive Vice President and Chief Financial Officer

(on behalf of the Registrant and as Principal Financial Officer)

Exhibit 10.1

THIS EMPLOYMENT AGREEMENT (the "Agreement"), dated as of June 17, 2013 is entered into by and between Harbinger Group Inc., a Delaware corporation (the "Company"), and Michael Kuritzkes ("Executive").

WHEREAS, Executive has offered to serve the Company, and the Company desires to employ Executive, subject to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained herein, and intending to be legally bound hereby, the parties hereto agree as set forth below:

1. Term; Effectiveness. (a) The term of Executive's employment under this Agreement shall commence as of June 17, 2013 (the "Effective Date") and shall continue until October 1, 2014 (the "Expiration Date") (such period, the "Initial Term"); provided, however, that such service period hereunder shall renew for an additional period of one (1) year on the Expiration Date and each anniversary of the Expiration Date thereafter (each, a "Renewal Term"), unless either the Company or Executive has provided to the other a notice of termination of this Agreement at least ninety (90) days in advance of the Expiration Date or such applicable anniversary of the Expiration Date, stating that the Company or Executive, as applicable, does not intend to renew this Agreement; provided, that Executive's employment under this Agreement and this Agreement may be terminated at any earlier time solely pursuant to the provisions of Section 5 hereof. The period of time from the Effective Date through the earlier of the expiration or termination of this Agreement is herein referred to as the "Term."

(a) Executive agrees and acknowledges that the Company has no obligation to extend the Initial Term or any Renewal Term, or to continue Executive's employment hereunder following the Expiration Date. Executive also agrees and acknowledges that, should Executive and the Company mutually agree to continue Executive's employment for any period of time following the Expiration Date or anniversary thereof (if applicable) notwithstanding the expiration or termination of this Agreement in accordance with its terms and without entering into a new written employment agreement, Executive's employment with the Company shall be "at will", such that the Company may terminate Executive's employment at any time, with or without reason and with or without notice, and Executive may resign at any time, with or without reason and with or without notice.

2. Definitions. For purposes of this Agreement, the following terms, as used herein, shall have the definitions set forth below.

(a) "Affiliate" means, with respect to any specified Person, any other Person that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with, such specified Person, provided that, in any event, any business in which the Company has a direct or indirect ownership interest of more than 5% shall be treated as an Affiliate of the Company.

(b) "Control" means, the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

(c) "Person" means any individual, corporation, partnership, limited liability company, firm, joint venture, association, joint-stock company, trust, unincorporated organization, governmental or regulatory body or other entity.

(d) "Subsidiary" means, with respect to any Person, (i) any corporation of which at least a majority of the voting power with respect to the capital stock is owned, directly or indirectly, by such Person, any of its other Subsidiaries or any combination thereof or (ii) any Person other than a corporation

in which such Person, any of its other Subsidiaries or any combination thereof has, directly or indirectly, at least a majority of the total equity or other ownership interest therein.

3. Duties and Responsibilities.

(a) Executive agrees to be employed by the Company and be actively engaged on a full-time basis in the business and activities of the Company and its Affiliates for the entirety of the Term, and, subject to Section 3(c), to devote substantially all of Executive's working time and attention to the Company and its Affiliates and the promotion of its business and interests and the performance of Executive's duties and responsibilities hereunder. During the Term, Executive agrees to use his reasonable best efforts to ensure that the business and activities of the Company and its Subsidiaries are conducted in compliance with all applicable laws, rules and regulations in all material respects. Executive shall be employed hereunder as General Counsel and an Executive Vice President of the Company with such duties and responsibilities as directed from time to time by the Chief Executive Officer of the Company ("CEO") or the President of the Company ("President") or the Board of Directors of the Company (the "Board"). Executive shall report directly to the CEO and the President.

(b) During the Term, Executive will carry out his duties as Executive Vice President and General Counsel in the Company's headquarters in New York City, or any future headquarters of the Company, subject to normal travel requirements in connection with the performance of his duties.

(c) During the Term, Executive shall use Executive's reasonable best efforts to faithfully and diligently serve the Company and shall not act in any capacity that is in conflict with Executive's duties and responsibilities hereunder. For the avoidance of doubt, during the Term, Executive shall not be permitted to become employed by, engaged in or to render services for any Person other than the Company and its Affiliates, shall not be permitted to be a member of the board of directors of any Person (other than charitable or nonprofit organizations), in any case without the consent of the Board, and shall not be directly or indirectly materially engaged or interested in any business activity, trade or occupation (other than employment with the Company and its Affiliates as contemplated by the Agreement); provided that nothing herein shall preclude Executive from engaging in charitable or community affairs and managing his personal investments to the extent that such other activities do not, subject to Section 7, conflict in any material way with the performance of Executive's duties hereunder.

4. Compensation and Related Matters.

(a) Base Compensation. During the Term, for all services rendered under this Agreement, Executive shall receive aggregate annual base salary ("Base Salary") at a rate of $500,000 per annum, payable in accordance with the Company's applicable payroll practices.

(b) Annual Bonus. During the Term, for each fiscal year, Executive shall have the opportunity to earn an annual bonus ("Annual Bonus"), in an amount to be tied to the achievement of performance measures in accordance with the Company's bonus plan and Appendix B. The Executive's Annual Bonus for fiscal year 2013 will be pro-rated based on the portion of the fiscal year worked by Executive. The performance measures for each fiscal year during the Term after fiscal year 2013 will be determined by the Board, as advised by the Compensation Committee of the Board, in its sole discretion, after consultation with Executive. For fiscal year 2013, details regarding Executive's Annual Bonus are set forth on Appendix A. The determination whether Executive has achieved the performance measures for a fiscal year, and the amount of the Annual Bonus to be awarded for such year, will be determined by the Board, as advised by the Compensation Committee, in its sole discretion. Any cash bonus will be paid within 74 days of the end of the fiscal year for which it is awarded, except as set forth on Appendix A. Executive must be employed by the Company as of the last business day of the fiscal year to be eligible for an Annual Bonus for such year, except as provided otherwise in Section 5.

(c) Benefits and Perquisites. During the Term, Executive shall be entitled to participate in the benefit plans and programs commensurate with Executive's position that are provided by the Company from time to time for its senior executives generally, subject to the terms and conditions of such plans. The Company may alter, modify, add to or delete its employee benefit plans at any time as it, in

its sole judgment, determines to be appropriate, without recourse by Executive, except that no such action shall adversely affect any previously vested rights of Executive under such plans.

(d) Business and Relocation Expense Reimbursements. During the Term, the Company shall reimburse Executive for reasonable and properly documented business expenses in accordance with the Company's then-prevailing policies and procedures for expense reimbursement. The Company will also reimburse Executive for up to a total of $60,000 for the specific costs incurred by the Executive in relocating to New York that are described in the Spectrum Brands Domestic Relocation Policy ("Relocation Expenses"). Executive will provide documentation to the Company of Relocation Expenses no more frequently than on a monthly basis, and Relocation Expenses will be paid within thirty (30) days of Executive's providing the Company with documentation of such expenses that is satisfactory to the Company.

(e) Vacation. During the Term, Executive shall be entitled to annual paid vacation of no less than four (4) weeks and to reasonable sick leave as determined by the Board.

(f) Initial Equity Grant. Within 90 days following the Effective Date, Executive shall receive a one-time equity award of options to acquire 50,000 shares of the stock of the Company ("Options") and 25,000 shares of restricted stock (the "Restricted Stock"). The Options will have an exercise price equal to the closing price of the Company's common stock on the date of grant and will vest in equal installments on each of the first four anniversaries of the Effective Date, subject to Executive's continued employment on such dates, subject to accelerated vesting as set forth herein. The Restricted Stock will vest and the restrictions shall lapse on the third anniversary of the Effective Date, subject to Executive's continued employment on such date, subject to accelerated vesting as set forth herein. The Options and Restricted Stock shall be subject to the terms of the underlying award agreements and the Company's equity plan in effect from time to time. Notwithstanding the preceding two sentences, if the Executive's employment is terminated by the Company without Cause (defined below) or by the Executive for Good Reason (defined below), or by reason of death or Disability (defined below), then the Executive's then unvested Options and Restricted Stock granted pursuant to this Section 4(f) shall vest (and the restrictions on such Restricted Stock shall lapse) in proportion to the number of years of service completed, calculated as though Executive worked through completion of the Initial Term or Renewal Term in which Executive's employment terminates, on the date the Release Condition (defined below) is satisfied. Executive shall thereafter have six (6) months within which to exercise any Options that have vested pursuant to such accelerated vesting.

5. Termination of the Term.

(a) Executive's employment and this Agreement may be terminated by either party at any time and for any reason; provided, however, that Executive shall be required to give the Company at least 30 days advance written notice of any resignation of Executive's employment hereunder. Notwithstanding the foregoing, Executive's employment shall automatically terminate upon Executive's death.

(b) Following any termination of Executive's employment during the Term, notwithstanding any provision to the contrary in this Agreement, the obligations of the Company to pay or provide Executive with compensation and benefits under Section 4 shall cease, except as otherwise provided herein, and the Company shall have no further obligations to provide compensation or benefits to Executive hereunder except (i) for payment of any accrued but unpaid Base Salary and vacation time and for payment of any accrued obligations and unreimbursed expenses under Section 4(d) accrued or incurred through the date of termination of employment, (ii) for payment of the non-deferred cash portion of any Annual Bonus earned in respect of the fiscal year prior to the fiscal year in which termination of employment occurs but unpaid as of the date of termination of employment (paid when such non-deferred cash portion of the Annual Bonus would otherwise be payable), (iii) for the COBRA Payments (as defined below), (iv) as set forth in any other benefit plans, programs or arrangements applicable to terminated employees in which Executive participates, other than severance plans or policies, and (v) as otherwise expressly required by applicable statute. For the avoidance of doubt, date of termination or termination date shall mean the last date of actual

and active employment, whether such day is selected by mutual agreement with Executive or unilaterally by the Company and whether with or without advance notice. Notwithstanding the above, if the Executive's employment is terminated for Cause or if he resigns his employment without Good Reason, the Executive shall not be entitled to receive any previously unpaid portion of the current or prior year's Annual Bonus or COBRA Payments. If the Term of this Agreement is not extended (or further extended), but the Executive's employment with the Company continues after the expiration of such Term, then such continued employment shall be on an "at will" basis upon such terms as the Company may prescribe; and if such "at will" employment is terminated by the Company, the Executive's right to severance shall be determined and be payable in accordance with that Company's policy in effect at such time, if any.

(c) (i) If, prior to the expiration of the then scheduled Initial Term or Renewal Term, Executive's employment is terminated by the Company without Cause (other than due to death or Disability) or by Executive for Good Reason (defined below), then Executive shall be entitled (subject to the times payments will be made and other conditions set forth in Section 5(c)(ii)) to (A) severance pay equal to Executive's then monthly Base Salary for a period equal to twelve (12) months, payable during the period immediately following such termination in substantially equal monthly installments consistent with the Company's payroll practices, (B) vesting of the Initial Equity Grant as provided in Section 4(f), (C) payment of 50% of the unpaid deferred cash portion, and vesting of 50% of the unvested equity portion, of Annual Bonuses awarded for years prior to the year in which termination occurs, such that 50% of Executive's unvested options shall vest and the restrictions on 50% of Executive' s unvested options shall vest and the restrictions on 50% of Executive's restricted stock shall lapse, as of the termination date, (D) eligibility for an Annual Bonus pursuant to Appendix A for the fiscal year in which such termination occurs, which shall be paid (for the cash portion of any bonus) or granted (for the equity portion of any bonus) on the same terms and at the same time as other executives, except that (i) Executive shall only be entitled to 50% of any deferred cash component of the Annual Bonus, if any, which shall be paid as a lump sum payment made within seventy-four (74) days of the end of the fiscal year for which it is awarded (notwithstanding any provision of Section 5(c)(ii) providing for earlier payment), (ii) only 50% of the equity grant (RSUs and options) otherwise calculated pursuant to Appendix A will be awarded, and (iii) such equity grant shall be granted, and will be vested, as of the date the Annual Bonus is awarded, and (E) if Executive elects health insurance continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), then the Company will reimburse Executive for the cost of COBRA premiums in excess of the cost of such benefits that active employees of the Company are required to pay for a period of twelve (12) months or until Executive obtains individual or family coverage through another employer, whichever comes first (the "COBRA Period"), subject to the conditions that: (I) Executive is responsible for immediately notifying the Company if Executive obtains alternative insurance coverage, (II) Executive will be responsible for the entire COBRA premium amount after the end of the COBRA Period; (III) if Executive declines COBRA coverage, then the Company will not make any alternative payment to Executive in lieu of paying for COBRA premiums, and (IV) such COBRA reimbursement payments shall be paid on an after tax basis as additional taxable compensation to the Executive (such COBRA reimbursement payments, the "COBRA Payments"). All of Executive's unvested restricted stock and options that do not vest pursuant to this Section 5(c)(i) shall be forfeited on the termination date.

(i) Any severance payments or benefits under Section 5(b)(iii) and 5(c)(i) shall be (A) conditioned upon Executive having provided an irrevocable waiver and general release of claims in favor of the Company and its respective Affiliates, their respective predecessors and successors, and all of the respective current or former directors, officers, employees, shareholders, partners, members, agents or representatives of any of the foregoing (collectively, the "Released

Parties”), in the Company's customary form (subject to modification by the Company to comply with changes in applicable laws) that has become effective and irrevocable in accordance with its terms within fifty five days after such termination of employment (the “Release Condition”) and (B) subject to Executive's continued compliance with the terms of the restrictive covenants in Sections 7, 8, 9, 10 and 11 of this Agreement. Payments and benefits of amounts which do not constitute nonqualified deferred compensation and are not subject to Section 409A (as defined below) shall commence five (5) days after the Release Condition is satisfied and payments and benefits which are subject to Section 409A shall commence on the 60th day after termination of employment (subject to further delay, if required pursuant to Section 20(d) below) provided that the Release Condition is satisfied.

(ii) For purposes of this Agreement, “Cause” means: (A) Executive's willful misconduct in the performance of his duties for the Company which causes material injury to the Company, (B) Executive's conviction of, or plea of guilty or nolo contendere to a felony (or the equivalent of a felony in a jurisdiction other than the United States), (C) Executive's material breach of this Agreement, (D) Executive's willful violation of the Company's written policies in a manner that is detrimental to the best interests of the Company, (E) Executive's fraud or misappropriation, embezzlement or misuse of funds or property belonging to the Company, (F) Executive's act of personal dishonesty which results in personal profit in connection with Executive's employment with the Company, (G) Executive's breach of fiduciary duty owed to the Company or (H) Executive's negligent actions which result in the loss of a material amount of capital of the Company or its Affiliates (the Company shall make the determination of materiality and shall promptly communicate such determination to Executive); provided, however, that Executive shall be provided a ten (10)-day period to cure any of the events or occurrences described in the immediately preceding clauses (C) or (D) hereof, to the extent curable. For purposes hereof, no act, or failure to act, on the part of Executive shall be considered “willful” unless it is done, or omitted to be done, by Executive in bad faith or without reasonable belief that Executive's action or omission was in the best interests of the Company. An act, or failure to act, based on specific authority given pursuant to a resolution duly adopted by the Board or based upon the advice of counsel for the Company shall be presumed to be done, or omitted to be done, by Executive in good faith and in the best interests of the Company.

(iii) For purposes of this Agreement, “Disability” means Executive's incapacity, due to mental, physical or emotional injury or illness, such that Executive is substantially unable to perform his duties hereunder for a continuous period of ninety calendar days, or for more than a total of 120 calendar days during any 12 month period, subject to reasonable accommodation provisions of applicable laws. Executive's employment shall immediately terminate upon Disability.

(iv) For purposes of this Agreement, “Good Reason” means the occurrence, without Executive's express written consent, of any of the following events: (A) a material diminution in Executive's authority, duties or responsibilities; (B) a diminution of Base Salary; (C) a change in the geographic location of Executive's principal place of performance of his services hereunder to a location more than thirty (30) miles outside of New York City that is also more than thirty (30) miles from his primary residence at the time of such change, except for travel consistent with the terms of this Agreement; (D) the Company gives notice pursuant to Section 1 above that the Initial Term or Renewal Term is not to be extended so long as Executive continues to perform his duties for the Company through the end of such Initial Term or Renewal Term and separates from the Company at the end of such Initial Term or Renewal Term ; or (E) a material breach by the Company of this Agreement. For the avoidance of doubt, Executive's providing notice pursuant to Section 1 above that the Initial Term or Renewal Term is not to be extended does not constitute Good Reason. If the Executive does not give Company a written

notice (specifying in detail the event or circumstances claimed to give rise to Good Reason) within twenty-five (25) days after the Executive has knowledge that an event constituting Good Reason has occurred, or is deemed to have occurred, the event will no longer constitute Good Reason; provided, however, that no such notice by the Executive shall be required in the case of a Good Reason event set forth in (D) above. In addition, the Executive must give the Company notice and thirty (30) days to cure, and if not cured, the Executive must, except as set forth in (D), actually terminate his or her employment within 120 days following, the event constituting Good Reason; otherwise, that event will no longer constitute Good Reason; provided, however, that no such notice by Executive shall be required in the case of a Good Reason event set forth in (D) above.

(d) Upon termination of Executive's employment for any reason, and regardless of whether Executive continues as a consultant to the Company, upon the Company's request Executive agrees to resign, as of the date of such termination of employment or such other date requested, from the Board and any committees thereof (and, if applicable, from the board of directors (and any committees thereof) of any Affiliate of the Company) to the extent Executive is then serving thereon.

(e) The payment of any amounts accrued under any benefit plan, program or arrangement in which Executive participates shall be subject to the terms of the applicable plan, program or arrangement, and any elections Executive has made thereunder. Subject to Section 20, the Company may offset any amounts due and payable by Executive to the Company or its Subsidiaries against any amounts the Company owes Executive hereunder.

6. Acknowledgments. (a) Executive acknowledges that the Company has expended and shall continue to expend substantial amounts of time, money and effort to develop business strategies, employee and customer relationships and goodwill and build an effective organization. Executive acknowledges that Executive is and shall become familiar with the Company's Confidential Information (as defined below), including trade secrets. Executive acknowledges that the Company has a legitimate business interest and right in protecting its Confidential Information, business strategies, employee and customer relationships and goodwill, and that the Company would be seriously damaged by the disclosure of Confidential Information and the loss or deterioration of its business strategies, employee and customer relationships and goodwill.

(a) Executive acknowledges that Executive has carefully read this Agreement and has given careful consideration to the restraints imposed upon Executive by this Agreement, and is in full accord as to the necessity of such restraints for the reasonable and proper protection of the Confidential Information, business strategies, employee and customer relationships and goodwill of the Company and its Affiliates now existing or to be developed in the future. Executive expressly acknowledges and agrees that each and every commitment and restraint imposed by this Agreement is reasonable with respect to subject matter and time period, in light of (i) the scope of the business of the Company and its Affiliates, (ii) the importance of Executive to the business of the Company and its Affiliates, (iii) Executive's knowledge of the business of the Company and its Affiliates and (iv) Executive's relationships with the Company's investors, clients or customers. Accordingly, Executive agrees (x) to be bound by the provisions of Sections 7, 8, 9, 10 and 11, it being the intent and spirit that such provisions be valid and enforceable in all respects and (y) acknowledges and agrees that Executive shall not object to the Company, (or any other intended third-party beneficiary of this Agreement) or any of their respective successors in interest enforcing Sections 7, 8, 9, 10 and 11 of this Agreement.

7. Nonsolicitation. (a) Executive agrees that Executive shall not, directly or indirectly, whether by Executive, through an Affiliate or in partnership or conjunction with, or as an employee, officer, director, manager, member, owner, consultant or agent of, any other Person:

(i) while an employee of the Company and during the period ending on the 18 month anniversary of Executive's date of termination of employment, solicit, entice, encourage or intentionally influence, or attempt to solicit, entice, encourage or influence, any employee of, or other Person who performs services for the Company or any business that acquires

all or substantially all of the assets of, or is otherwise a successor to, the Company (an "Other Employing Entity"), or any of their respective Affiliates or Subsidiaries to resign or leave the employ or engagement of the Company or any of their respective Affiliates or otherwise hire, employ, engage or contract any such employee or Person, or any other Person who provided services to the Company or any of their respective Affiliates during the six (6) months prior to such hiring, employment, engagement or contracting, to perform services other than for the benefit of the Company, any Other Employing Entity or any of their respective Affiliates or Subsidiaries, in each case other than in the fulfillment of Executive's duties as General Counsel and an Executive Vice President of the Company;

(ii) while an employee of the Company and during the period ending on the 12 month anniversary of Executive's date of termination of employment, solicit, entice, encourage, influence, accept payment from, or provide services to, or attempt to solicit, entice, encourage, influence or accept payment from, or assist any other Person, firm or corporation, directly or indirectly, in the solicitation of or providing services to, any Client (as defined below) or any Prospective Client (as defined below), for the direct or indirect benefit of any competitor of the Company, any Other Employing Entity or any of their respective Affiliates or Subsidiaries, in each case other than in the fulfillment of Executive's duties as President of the Company;

(iii) while an employee of the Company and during the period ending on the 12 month anniversary of Executive's date of termination of employment, directly or indirectly request or advise any Client or Prospective Client to alter, reduce, terminate, withdraw, curtail, or cancel the Client's or Prospective Client's business with the Company, any Other Employing Entity or any of their respective Affiliates or Subsidiaries, in each case other than in the fulfillment of Executive's duties as President of the Company; or

(iv) while an employee of the Company and during the period ending on the 18 month anniversary of Executive's date of termination of employment, solicit any agents, advisors, independent contractors or consultants of the Company, any Other Employing Entity or any of their respective Affiliates or Subsidiaries who are under contract or doing business with the Company, any Other Employing Entity or any of their respective Affiliates or Subsidiaries to terminate, reduce or divert business with or from the Company, any Other Employing Entity or any of their respective Affiliates or Subsidiaries, in each case other than in the fulfillment of Executive's duties as General Counsel and an Executive Vice President of the Company.

(v) For purposes of this Agreement, "Client" means a Person to whom the Company, its Subsidiaries or Affiliates sold goods or provided services, and with whom Executive had substantial contacts, dealings or client relationship responsibilities (either directly or through supervising other employees who had such responsibilities) on behalf of the Company, its Subsidiaries or its Affiliates, at any time while Executive is employed by the Company (the "Look Back Period") (but if Executive is not employed by the Company at the time of any activity described in Section 7(a)(iii) and 7(a)(iv), then the Look Back Period will not be longer than one (1) year prior to Executive's last day of employment), provided, however, a Client does not include any Person who became a client of the Company, its Affiliates or Subsidiaries both (A) as a result of a professional or social relationship that Executive developed with such Person before becoming employed by the Company or any of its Affiliates, and (B) without investment or assistance by the Company; and "Prospective Client" shall mean those Persons (X) that the Company is actively soliciting or is planning to solicit; and (Y) with whom Executive has met or with respect to which Executive has obtained Confidential Information in the course of or as a result of his performance of his duties to the Company.

(a) Notwithstanding Section 7(a), it shall not constitute a violation of Section 7(a) for Executive (i) to provide legal representation or other legal services to any Person; or (ii) to engage in

the activities described in Section 7(a) with respect to any Person who provides legal representation or other legal services to the Company or any of its Affiliates or Subsidiaries as an employee or otherwise.

(b) The restrictive periods set forth in the Section 7(a) shall be deemed automatically extended by any period in which Executive is in violation of any of the provisions of Section 7(a), to the extent permitted by law.

(c) If a final and non-appealable judicial determination is made by a court of competent jurisdiction that any of the provisions of this Section 7 constitutes an unreasonable or otherwise unenforceable restriction against Executive, the provisions of this Section 7 will not be rendered void but will be deemed to be modified to the minimum extent necessary to remain in force and effect for the longest period and greatest extent that would not constitute such an unreasonable or unenforceable restriction (and such court shall have the power to reduce the duration or restrict or redefine the scope of such provision and to enforce such provision as so reduced, restricted or redefined).

(d) Moreover, and without limiting the generality of Section 13, notwithstanding the fact that any provision of this Section 7 is determined not to be specifically enforceable, the Company will nevertheless be entitled to recover monetary damages as a result of Executive's breach of any such provision.

8. Nondisclosure of Confidential Information. (a) Executive acknowledges that the Confidential Information obtained by Executive while employed hereunder by the Company and its Affiliates is the property of the Company or its Affiliates, as applicable. Therefore, Executive agrees that Executive shall not, whether during or after the Term, disclose, share, transfer or provide access to any unauthorized Person or use for Executive's own purposes or for the benefit of any unauthorized Person any Confidential Information without the prior written consent of the Company, unless and to the extent that the aforementioned matters become generally known to and available for use by the public other than as a result of Executive's acts or omissions in violation of this Agreement; provided, however, that if Executive receives a request to disclose Confidential Information pursuant to a deposition, interrogatory, request for information or documents in legal proceedings, subpoena, civil investigative demand, governmental or regulatory process or similar process, (A) Executive shall, unless prohibited by law, promptly notify in writing the Company, and consult with and assist the Company in seeking a protective order or request for other appropriate remedy, (B) in the event that such protective order or remedy is not obtained, or if the Company waives compliance with the terms hereof, Executive shall disclose only that portion of the Confidential Information which is legally required to be disclosed and shall exercise reasonable efforts to provide that the receiving Person shall agree to treat such Confidential Information as confidential to the extent possible (and permitted under applicable law) in respect of the applicable proceeding or process, and (C) the Company shall be given an opportunity to review the Confidential Information prior to disclosure thereof.

(a) For purposes of this Agreement, "Confidential Information" means information, observations and data concerning the business or affairs of the Company and its Affiliates, or any funds or accounts managed by the foregoing, including, without limitation, all business information (whether or not in written form) which relates to the Company, its Affiliates, or any funds or accounts managed by the foregoing, or their investors, customers, suppliers or contractors or any other third parties in respect of which the Company or any of its Affiliates has a business relationship or owes a duty of confidentiality, or their respective businesses or products, and which is not known to the public generally other than as a result of Executive's breach of this Agreement, including but not limited to: investment methodologies, investment advisory contracts, fees and fee schedules; investment performance of the accounts or funds managed by the Company or its respective Affiliates ("Track Records"); technical information or reports; brand names, trademarks, formulas; trade secrets; unwritten knowledge and "know-how"; operating instructions; training manuals; customer or investor lists; customer buying records and habits; product sales records and documents, and product development, marketing and sales strategies; market surveys; marketing plans; profitability analyses; product cost; long-range plans or any analyses or plans relating to the acquisition, disposition or development of businesses, securities or assets of the Company or its Affiliates; information

relating to pricing, competitive strategies and new product development; information relating to any forms of compensation or other personnel-related information; contracts and supplier lists. Without limiting the foregoing, Executive agrees to keep confidential the existence of, and any information concerning, any dispute between Executive and the Company or their respective Subsidiaries and Affiliates, except that Executive may disclose information concerning such dispute to the court or arbitrator that is considering such dispute or to his legal counsel (provided that such counsel agrees not to disclose any such information other than as necessary to the prosecution or defense of such dispute). Executive acknowledges and agrees that the Track Records were the work of teams of individuals and not any one individual and are the exclusive property of the Company and its Affiliates, and agrees that he shall in no event claim the Track Records as his own following termination of his employment for the Company.

(b) Except as set forth otherwise in this Agreement, Executive agrees that Executive shall not disclose the terms of this Agreement, except to Executive's immediate family and Executive's financial and legal advisors, or if previously disclosed by the Company in any public filing, or as may be required by law or ordered by a court or applicable under Section 12 of this Agreement. Executive further agrees that any disclosure to Executive's financial and legal advisors will only be made after such advisors acknowledge and agree to maintain the confidentiality of this Agreement and its terms.

(c) Executive further agrees that Executive will not improperly use or disclose any confidential information or trade secrets, if any, of any former employers or any other Person to whom Executive has an obligation of confidentiality, and will not bring onto the premises of the Company or its Affiliates any unpublished documents or any property belonging to any former employer or any other Person to whom Executive has an obligation of confidentiality unless consented to in writing by the former employer or other Person.

9. Return of Property. Executive acknowledges that all notes, memoranda, specifications, devices, formulas, records, files, lists, drawings, documents, models, equipment, property, computer, software or intellectual property relating to the businesses of the Company and its Subsidiaries and Affiliates, in whatever form (including electronic), and all copies thereof, that are received or created by Executive while employed hereunder by the Company or its Subsidiaries or Affiliates (including but not limited to Confidential Information and Inventions (as defined below)) are and shall remain the property of the Company and its Subsidiaries and Affiliates, and Executive shall immediately return such property to the Company upon the termination of Executive's employment hereunder, and, in any event, at the Company's request. Executive further agrees that any property situated on the premises of, and owned by, the Company or its Subsidiaries or Affiliates, including disks and other storage media, filing cabinets or other work areas, is subject to inspection by Company's personnel at any time with or without notice.

10. Intellectual Property Rights. (a) Executive agrees that the results and proceeds of Executive's employment by the Company or its Subsidiaries or Affiliates (including, but not limited to, any trade secrets, products, services, processes, know-how, Track Record, designs, developments, innovations, analyses, drawings, reports, techniques, formulas, methods, developmental or experimental work, improvements, discoveries, inventions, ideas, source and object codes, programs, matters of a literary, musical, dramatic or otherwise creative nature, writings and other works of authorship) resulting from services performed while employed hereunder by the Company and any works in progress, whether or not patentable or registrable under copyright or similar statutes, that were made, developed, conceived or reduced to practice or learned by Executive, either alone or jointly with others (collectively, "Inventions"), shall be works-made-for-hire and the Company (or, if applicable or as directed by the Board, any of its Subsidiaries or Affiliates) shall be deemed the sole owner throughout the universe of any and all trade secret, patent, copyright and other intellectual property rights (collectively, "Proprietary Rights") of whatsoever nature therein, whether or not now or hereafter known, existing, contemplated, recognized or developed, with the right to use the same in perpetuity in any manner the Board determines in its sole discretion, without any further payment to Executive whatsoever. If, for any reason, any of such results and proceeds shall not legally be a work-made-for-hire and/or there are any Proprietary Rights which do not accrue to the Company (or, as the case

may be, any of its Subsidiaries or Affiliates) under the immediately preceding sentence, then Executive hereby irrevocably assigns and agrees to assign any and all of Executive's right, title and interest thereto, including any and all Proprietary Rights of whatsoever nature therein, whether or not now or hereafter known, existing, contemplated, recognized or developed, to the Company (or, if applicable or as directed by the Board, any of its Subsidiaries or Affiliates), and the Company or such Subsidiaries or Affiliates shall have the right to use the same in perpetuity throughout the universe in any manner determined by the Board or such Subsidiaries or Affiliates without any further payment to Executive whatsoever. As to any Invention that Executive is required to assign, Executive shall promptly and fully disclose to the Company all information known to Executive concerning such Invention.

(a) Executive agrees that, from time to time, as may be requested by the Board and at the Company's sole cost and expense, Executive shall do any and all reasonable and lawful things that the Board may reasonably deem useful or desirable to establish or document the Company's exclusive ownership throughout the United States of America or any other country of any and all Proprietary Rights in any such Inventions, including the execution of appropriate copyright and/or patent applications or assignments. To the extent Executive has any Proprietary Rights in the Inventions that cannot be assigned in the manner described above, Executive unconditionally and irrevocably waives the enforcement of such Proprietary Rights. This Section 10(b) is subject to and shall not be deemed to limit, restrict or constitute any waiver by the Company of any Proprietary Rights of ownership to which the Company may be entitled by operation of law by virtue of Executive's employment by the Company. Executive further agrees that, from time to time, as may be requested by the Board and at the Company's sole cost and expense, Executive shall assist the Company in every reasonable, proper and lawful way to obtain and from time to time enforce Proprietary Rights relating to Inventions in any and all countries. To this end, Executive shall execute, verify and deliver such documents and perform such other acts (including appearances as a witness) as the Company may reasonably request for use in applying for, obtaining, perfecting, evidencing, sustaining, and enforcing such Proprietary Rights and the assignment thereof. In addition, Executive shall execute, verify, and deliver assignments of such Proprietary Rights to the Company or its designees. Executive's obligation to provide reasonable assistance to the Company with respect to Proprietary Rights relating to such Inventions in any and all countries shall continue beyond the termination or expiration of the Term.

(b) Executive hereby waives and quitclaims to the Company any and all claims, of any nature whatsoever, that Executive now or may hereafter have for infringement of any Proprietary Rights assigned hereunder to the Company.

11. Non-Disparagement.

(a) During Executive's employment with the Company and thereafter, Executive agrees not to make, publish or communicate at any time to any person or entity, including, but not limited to, customers, clients and investors of the Company, its Affiliates, or any entity affiliated with Philip A. Falcone or any of his family members, any Disparaging (defined below) remarks, comments or statements concerning the Company its Affiliates, any entity affiliated with Philip A. Falcone or any of his family members, or any of their respective present and former members, partners, directors, officers, employees or agents.

(b) In the event (i) Executive's employment terminates for any reason and (ii) Executive provides the Company with an irrevocable waiver and general release in favor of the Released Parties as set forth above in Section 5(c) that has become effective and irrevocable in accordance with its terms, the Company agrees that the CEO, the President and the Board shall not make, publish, or communicate at any time to any person or entity any Disparaging (defined below) remarks, comments or statements concerning Executive, except nothing herein shall prevent the Company from making truthful statements regarding Executive's termination as required or, in the discretion of the Board, deemed advisable to be made in the Company's public filings.

(c) For the purposes of this Section 11, “Disparaging” remarks, comments or statements are those that impugn the character, honesty, integrity, morality, business acumen or abilities of the individual or entity being disparaged.

(d) Notwithstanding the foregoing, this Section 11 does not apply to (i) any truthful testimony, pleading, or sworn statements in any legal proceeding; (ii) attorney-client communications; or (iii) any communications with a government or regulatory agency, and further, it shall not be construed to prevent Executive from filing a charge with the Equal Employment Opportunity Commission or a comparable state or local agency.

12. Notification of Employment or Service Provider Relationship. Executive hereby agrees that prior to accepting employment with, or agreeing to provide services to, any other Person during any period during which Executive remains subject to any of the covenants set forth in Section 7, Executive shall provide such prospective employer with written notice of such provisions of this Agreement, with a copy of such notice delivered to the Board not later than seven (7) days prior to the date on which Executive is scheduled to commence such employment or engagement.

13. Remedies and Injunctive Relief. Executive acknowledges that a violation by Executive of any of the covenants contained in Section 7, 8, 9, 10 or 11 would cause irreparable damage to the Company in an amount that would be material but not readily ascertainable, and that any remedy at law (including the payment of damages) would be inadequate. Accordingly, Executive agrees that, notwithstanding any provision of this Agreement to the contrary, the Company may be entitled (without the necessity of showing economic loss or other actual damage and without the requirement to post a bond) to injunctive relief (including temporary restraining orders, preliminary injunctions and/or permanent injunctions) in any court of competent jurisdiction for any actual or threatened breach of any of the covenants set forth in Section 7, 8, 9, 10 or 11 in addition to any other legal or equitable remedies it may have. The preceding sentence shall not be construed as a waiver of the rights that the Company may have for damages under this Agreement or otherwise, and all of the Company's rights shall be unrestricted.

14. Representations of Executive; Advice of Counsel.

(a) Executive represents, warrants and covenants that as of the date hereof: (i) Executive has the full right, authority and capacity to enter into this Agreement and perform Executive's obligations hereunder, (ii) Executive is not bound by any agreement that conflicts with or prevents or restricts the full performance of Executive's duties and obligations to the Company hereunder during or after the Term and (iii) the execution and delivery of this Agreement shall not result in any breach or violation of, or a default under, any existing obligation, commitment or agreement to which Executive is subject.

(b) Prior to execution of this Agreement, Executive was advised by the Company of Executive's right to seek independent advice from an attorney of Executive's own selection regarding this Agreement. Executive acknowledges that Executive has entered into this Agreement knowingly and voluntarily and with full knowledge and understanding of the provisions of this Agreement after being given the opportunity to consult with counsel. Executive further represents that in entering into this Agreement, Executive is not relying on any statements or representations made by any of the Company's directors, officers, employees or agents which are not expressly set forth herein, and that Executive is relying only upon Executive's own judgment and any advice provided by Executive's attorney.

15. Cooperation. Executive agrees that, upon reasonable notice and without the necessity of the Company obtaining a subpoena or court order, Executive shall provide reasonable cooperation in connection with any suit, action or proceeding (or any appeal from any suit, action or proceeding), or the decision to commence on behalf of the Company any suit, action or proceeding, and any investigation and/or defense of any claims asserted against any of the Company's or its Affiliates' current or former directors, officers, employees, shareholders, partners, members, agents or representatives of any of the foregoing, which relates to events occurring during Executive's employment hereunder by the Company as to which Executive may have relevant information (including but not limited to furnishing relevant information and materials to the Company or its designee and/or providing testimony at depositions and at trial), provided that with

respect to such cooperation occurring following termination of Executive's employment, the Company shall reimburse Executive for expenses reasonably incurred in connection therewith and shall schedule such cooperation to the extent reasonably practicable so as not to unreasonably interfere with Executive's business or personal affairs. Notwithstanding anything to the contrary, in the event the Company requests cooperation from Executive after his employment with the Company has terminated and at a time when Executive is not receiving any severance pay from the Company, Executive shall not be required to devote more than forty (40) hours of his time per year with respect to this Section 15, except that such forty (40) hour cap shall not include or apply to any time spent testifying at a deposition or at trial, or spent testifying before or being interviewed by any administrative or regulatory agency.

16. Withholding. The Company may deduct and withhold from any amounts payable under this Agreement such Federal, state, local, non-U.S. or other taxes as are required or permitted to be withheld pursuant to any applicable law or regulation

17. Assignment.

(a) This Agreement is personal to Executive and without the prior written consent of the Board shall not be assignable by Executive, and any assignment in violation of this Agreement shall be void.

(b) This Agreement shall be binding on, and shall inure to the benefit of, the parties to it and their respective heirs, legal representatives, successors and permitted assigns (including, without limitation, successors by merger, consolidation, sale or similar transaction and in the event of Executive's death, Executive's estate and heirs in the case of any payments due to Executive hereunder).

(c) Executive acknowledges and agrees that all of Executive's covenants and obligations to the Company, as well as the rights of the Company hereunder, shall run in favor of and shall be enforceable by the Company and any successor or assign to all or substantially all of the Company's business or assets.

18. Arbitration. Any controversy, claim or dispute between the parties relating to the Executive's employment or termination of employment, whether or not the controversy, claim or dispute arises under this Agreement (other than any controversy or claim arising under Section 7 or Section 8), shall be resolved by arbitration in accordance with the Employment Arbitration Rules and Mediation Procedures ("Rules") of the American Arbitration Association through a single arbitrator selected in accordance with the Rules. The decision of the arbitrator shall be rendered within thirty (30) days of the close of the arbitration hearing and shall include written findings of fact and conclusions of law reflecting the appropriate substantive law. Judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof in the State of New York. In reaching his or her decision, the arbitrator shall have no authority (a) to authorize or require the parties to engage in discovery (provided, however, that the arbitrator may schedule the time by which the parties must exchange copies of the exhibits that, and the names of the witnesses whom, the parties intend to present at the hearing), (b) to interpret or enforce Section 7 or Section 8 of the Agreement (for which Section 19 shall provide the sole and exclusive venue), (c) to change or modify any provision of this Agreement, (d) to base any part of his or her decision on the common law principle of constructive termination, or (e) to award punitive damages or any other damages not measured by the prevailing party's actual damages and may not make any ruling, finding or award that does not conform to this Agreement. Each party shall bear all of his or its own legal fees, costs and expenses of arbitration, and one-half (1/2) of the costs of the arbitrator.

19. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, without reference to its conflict of law provisions. Furthermore, as to Section 7 and Section 8, the Executive and the Company each agrees and consents to submit to personal jurisdiction in the state of New York in any state or federal court of competent subject matter jurisdiction situated in New York County, New York. The Executive and the Company further agree that the sole and exclusive venue for any suit arising out of, or seeking to enforce, the terms of Section 7 and Section 8 of this Agreement shall be in a state or federal court of competent subject matter jurisdiction situated in New York

County, New York. In addition, the Executive and the Company waive any right to challenge in another court any judgment entered by such New York County court or to assert that any action instituted by the Company in any such court is in the improper venue or should be transferred to a more convenient forum. **Further, the Executive and the Company waive any right he may otherwise have to a trial by jury in any action to enforce the terms of this Agreement**. The parties hereto irrevocably consent to the service of any and all process in any suit, action or proceeding arising out of or relating to this Agreement by the mailing of copies of such process to such party at such party's address specified in Section 24, or such other updated address as has been provided to the other party from time to time in accordance with Section 24. Each party shall bear its own costs and expenses (including reasonable attorneys' fees and expenses) incurred in connection with any dispute arising out of or relating to this Agreement.

20. Amendment; No Waiver; 409A

(a) No provisions of this Agreement may be amended, modified, waived or discharged except by a written document signed by Executive and a duly authorized officer of the Company (other than Executive).

(b) The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement. No failure or delay by either party in exercising any right or power hereunder will operate as a waiver thereof, nor will any single or partial exercise of any such right or power, or any abandonment of any steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power.

(c) It is the intention of the Company and Executive that this Agreement comply with the requirements of Section 409A, and this Agreement will be interpreted in a manner intended to comply with or be exempt from Section 409A. The Company and Executive agree to negotiate in good faith to make amendments to this Agreement as the parties mutually agree are necessary or desirable to avoid the imposition of taxes or penalties under Section 409A. Notwithstanding the foregoing, Executive shall be solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on or for the account of Executive in connection with this Agreement (including any taxes and penalties under Section 409A), and neither the Company nor any Affiliate shall have any obligation to indemnify or otherwise hold Executive (or any beneficiary) harmless from any or all of such taxes or penalties.

(d) Notwithstanding anything in this Agreement to the contrary, in the event that Executive is deemed to be a “specified employee” within the meaning of Section 409A(a)(2)(B)(i), no payments hereunder that are “deferred compensation” subject to Section 409A that are due in connection with the Executive's “separation from service” (as defined in Section 409A) shall be made to Executive prior to the date that is six (6) months after the date of Executive's “separation from service” (as defined in Section 409A) or, if earlier, Executive's date of death. Following any applicable six (6) month delay, all such delayed payments will be paid in a single lump sum on the earliest permissible payment date. For purposes of Section 409A, each of the payments that may be made under this Agreement are designated as separate payments.

(e) For purposes of this Agreement, with respect to payments of any amounts that are considered to be “deferred compensation” subject to Section 409A, references to “termination of employment” (and substantially similar phrases) shall be interpreted and applied in a manner that is consistent with the requirements of Section 409A relating to “separation from service”.

(f) To the extent that any reimbursements pursuant to Section 4(e), 4(g) or 15 are taxable to Executive, any such reimbursement payment due to Executive shall be paid to Executive as promptly as practicable, and in all events on or before the last day of Executive's taxable year following the taxable year in which the related expense was incurred. The reimbursements pursuant to Section 4(e), 4(g) and 15 are not subject to liquidation or exchange for another benefit and the amount of such benefits and reimbursements that Executive receives in one taxable year shall not affect the amount of such benefits or reimbursements that Executive receives in any other taxable year.

21. Indemnification. To the extent permitted by law and the Company's governing documents and applicable insurance agreements, the Company shall indemnify Executive, hold Executive harmless, and make advances for expenses (including attorneys and costs) to Executive (subject to Executive's providing an undertaking to repay the Company that is acceptable to the Company) with respect to any and all losses, claims, demands, liabilities, costs, damages, expenses (including, without limitation, reasonable attorneys' fees and expenses) and causes of action imposed on, incurred by, asserted against or to which Executive may otherwise become subject by reason of or in connection with any act or omission of Executive, including any negligent act or omission, for and on behalf of Company that occurs during Executive's employment with the Company or in connection with Executive providing cooperation to the Company as set forth in Section 15 (other than testifying as a witness), that Executive reasonably and in good faith believes is in furtherance of the interest of Company, unless such act or omission constitutes gross negligence or intentional misconduct or is outside of the scope of Executive's authority, provided, however, that this Section 21 shall not be construed to grant Executive a right to be indemnified by Company for actions or proceedings brought by the Company for breach or anticipated breach of this Agreement by Executive.

22. Severability. If any provision or any part thereof of this Agreement, including Sections 7, 8, 9, 10 and 11 hereof, as applied to either party or to any circumstances, shall be adjudged by a court of competent jurisdiction to be invalid or unenforceable, the same shall in no way affect any other provision or remaining part thereof of this Agreement, which shall be given full effect without regard to the invalid or unenforceable provision or part thereof, or the validity or enforceability of this Agreement. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible.

23. Entire Agreement. This Agreement constitutes the entire agreement and understanding between the Company and Executive with respect to the subject matter hereof and supersedes all prior agreements and understandings (whether written or oral), between Executive and the Company, relating to such subject matter. None of the parties shall be liable or bound to any other party in any manner by any representations and warranties or covenants relating to such subject matter except as specifically set forth herein.

24. Survival. The rights and obligations of the parties under the provisions of this Agreement (including without limitation, Sections 7 through 13 and Section 15) shall survive, and remain binding and enforceable, notwithstanding the expiration of the Term, the termination of this Agreement, the termination of Executive's employment hereunder or any settlement of the financial rights and obligations arising from Executive's employment hereunder, to the extent necessary to preserve the intended benefits of such provisions.

25. No Construction against Drafter. No provision of this Agreement or any related document will be construed against or interpreted to the disadvantage of any party hereto by any arbitrator, court or other governmental or judicial authority by reason of such party having or being deemed to have structured or drafted such provision.

26. Clawback. Executive acknowledges that to the extent required by applicable law or written company policy adopted to implement the requirements of such law (including without limitation Section 304 of the Sarbanes Oxley Act and Section 954 of the Dodd Frank Act), the Annual Bonus, signing bonus (if any) and other incentive compensation (if any) shall be subject to any required clawback, forfeiture, recoupment or similar requirement.

27. Notices. All notices or other communications required or permitted to be given hereunder shall be in writing and shall be delivered by hand or sent by facsimile or sent, postage prepaid, by registered, certified or express mail or overnight courier service and shall be deemed given when so delivered by hand or facsimile, or if mailed, three days after mailing (one business day in the case of express mail or

overnight courier service) to the parties at the following addresses or facsimiles (or at such other address for a party as shall be specified by like notice):

If to the Company: Harbinger Group Inc.
Attn: President
450 Park Avenue
27th Floor
New York, NY, 10022
(212) 906-8559

With a copy to (which shall not constitute notice hereunder):

Bryan Cave LLP
1290 Avenue of the Americas
New York, NY 10104-3300
(212) 541-2000
Attn: Vincent Alfieri, Esq.

If to Executive: Michael Kuritzkes

28. Headings and References. The headings of this Agreement are inserted for convenience only and neither constitute a part of this Agreement nor affect in any way the meaning or interpretation of this Agreement. When a reference in this Agreement is made to a Section, such reference shall be to a Section of this Agreement unless otherwise indicated.

29. Counterparts. This Agreement may be executed in one or more counterparts (including via facsimile and electronic image scan (PDF)), each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

IN WITNESS WHEREOF, this Agreement has been duly executed by the parties as of the date first written above.

HARBINGER GROUP INC.

By: /s/ Omar M. Asali
Name: Omar M. Asali
Title: President

Michael Kuritzkes

/s/ Michael Kuritzkes

Appendix A
For the Fiscal Year Ending in 2013

Your bonus shall be subject to, and governed by, the terms of the Harbinger Group Inc. 2011 Omnibus Equity Award Plan (or any successor plan intended to qualify under Code Section 162(m)).

Your annual bonus will have two components (i) a component based on growth in the Company's Net Asset Value (NAV) (the "Corporate Bonus") and (ii) a component based on your individual performance against your individual responsibilities and goals established by the Compensation Committee for each fiscal year ("Individual Bonus"). For the fiscal year ending in 2013, all bonus calculations described below will be pro rated based on the proportion between the portion of the fiscal year from the Effective Date to the end of the fiscal year and the entire fiscal year (*e.g.*, the bonus calculations will be multiplied by 28.77%).

The Compensation Committee shall determine in its discretion the extent to which you have achieved your Individual Bonus goals and the amount of such Individual Bonus, provided, however, you will not be eligible for any Individual Bonus unless the Compensation Committee determines that you have substantially achieved your goals, and the maximum amount of your Individual Bonus shall not exceed the product of (i) two, times (ii) 50%, times (iii) your target variable compensation as set forth in Appendix B or as modified in subsequent fiscal years (the amount in clause (iii), the "Target Bonus"). The Compensation Committee shall certify the amounts of the Individual Bonus, if any, and authorize the payout of the Individual Bonus, which shall be paid within 74 days after the end of the fiscal year for which it is awarded.

Your Corporate Bonus will be determined as follows. At the beginning of the fiscal year, the Company will establish a target bonus pool for all plan participants ("Target Pool"). Promptly following the end of the fiscal year, the Compensation Committee will determine, and the Company will fund, a bonus pool ("Corporate Bonus Pool") up to 12% of the excess, if any, of (A) adjusted net asset value of the Company ("NAV") at the end of the fiscal year over (B) NAV at the beginning of the fiscal year plus a required threshold return of 7% (such threshold return, the "Threshold Return"). If the Threshold Return is not achieved for the fiscal year, then no Corporate Bonus shall be paid for the fiscal year. In addition, if the Threshold Return is not achieved for a fiscal year, then the Corporate Bonus Pool for the next fiscal year shall be based on growth as compared to the highest NAV for the preceding two fiscal years (and still subject to the Threshold Return).

The Compensation Committee shall determine and shall certify the amounts of your Corporate Bonus, if any, and authorize the payout of the Corporate Bonus as described below. If amounts in excess of the Threshold Return are achieved, then the Corporate Bonus Pool will be funded and paid out in the manner set forth herein for each fiscal year. Your portion of the Corporate Bonus Pool for each fiscal year in which the Threshold Return is achieved will be calculated by multiplying (i) the amount of the pool, by (ii) the fraction in which the numerator is 50% of your Target Bonus and the denominator is the cumulative total of the portions of all target variable compensation payable through Corporate Bonuses for all participants eligible to receive a portion of the Corporate Bonus Pool in that fiscal year.

If the Bonus Pool is less than or equal to two times the Target Pool, then the Bonus Pool will be paid out currently within 74 days after the end of the applicable fiscal year (the date of payment the "Original Payment Date"). For the fiscal year ending in 2013, the payout will be in the following proportion of cash and equity: (x) 40% will be paid out in cash, (y) 51% will be granted as restricted stock (which restrictions will lapse in substantially equal installments on each of the first two anniversaries of the date of grant (the "Grant Date") and (z) 9% will consist of stock options which will vest in

substantially equal installments on each of the first two anniversaries of the Grant Date, in each case subject to continued employment on the relevant anniversary except as set forth in Section 5 of this Agreement. All payments and vested grants are subject to withholding and deductions as required by applicable laws.

If the Bonus Pool is in excess of two times the Target Pool, then in addition to the payments set forth in the preceding paragraph, subject to adjustment as set forth below, the portion of the excess amount allocated to your Corporate Bonus (the "Deferred Amount") will be paid as follows: (W) 20% of the Deferred Amount shall be paid out in cash on the first anniversary of the Original Payment Date, (X) 20% of the Deferred Amount shall be paid out in cash on the second anniversary of the Original Payment Date (together, the amounts described in clauses (W) and (X), "Deferred Cash"), (Y) 51% of the Deferred Amount will be granted as restricted stock (which restrictions will lapse in substantially equal installments based on continued service with the Company on each of the second and third anniversary of the Grant Date) and (Z) 9% of the Deferred Amount will consist of stock options which will vest in substantially equal installments on the second and third anniversary of the Grant Date, in each case subject to continued employment on the relevant anniversary, except as set forth in Section 5 of this Agreement.

If there is a Deferred Amount payable for a fiscal year, and the increase in NAV in either of the next two fiscal years does not exceed the Threshold Return for each of such fiscal years (or there is a decline in NAV in either of the next two fiscal years), then a portion of the Deferred Cash which would otherwise be paid for the fiscal year shall be reduced (and not paid), corresponding to the decrease (expressed in percentage) in NAV below the Threshold Return. For illustrative purposes only, if the NAV in the first fiscal year increases by only 1% over the NAV for the prior fiscal year, then the portion of the Deferred Cash that would otherwise be payable on the first anniversary of the Original Payment Date will be reduced by 6% (7% Threshold Return minus 1% NAV growth achieved); but if the NAV in the first fiscal year decreases by 10% from the NAV for the prior fiscal year, then the portion of the Deferred Cash that would otherwise be payable on the first anniversary of the Original Payment Date will be reduced by 17% (7% Threshold Return minus a negative 10% NAV growth achieved). Deferred equity is not subject to reduction pursuant to this paragraph.

The Board or the Compensation Committee may alter the mix of cash and equity that is distributed in payment of the bonuses for future fiscal years. The Board (and Compensation Committee) currently intends to continue the bonus plan (for the fiscal year ending in 2013 and future fiscal years) but retains the power to amend, modify or terminate the bonus plan.

Appendix B - Applicable to Fiscal Year Ending in 2013 and Subsequent Years

Employee: Michael Kuritzkes

Title: Executive Vice President and General Counsel

Reports to: Chairman & CEO and President

Employment start date: June 17, 2013

Annual Salary: $500,000

Target variable compensation: $800,000 (pro rated for FY 2013, $230,137)

You will be eligible to receive variable compensation according to a plan established for senior managers by the Compensation Committee. The bonus plan for fiscal year 2013 is currently designed to deliver your total target variable compensation ("Target Bonus") as follows: 50 percent based upon your achievement of individual performance goals as determined by the Compensation Committee ("Target Individual Bonus"), and 50 percent of your Target Bonus will be based on the firm's NAV performance ("Corporate Bonus"), as described in Appendix A of this Agreement. For fiscal year 2013, all bonus calculations will be pro rated based on the proportion between the portion of the fiscal year from the Effective Date to the end of the fiscal year and the entire fiscal year (*e.g.*, the bonus calculations will be multiplied by 28.77%). Although the Company expects this plan to remain substantially unchanged over time, the Board of Directors may adjust or alter the variable compensation plan, your Target Bonus, and the allocation between your Target Individual Bonus and Corporate Bonus, at its discretion. All incentive compensation awards are subject to the terms of the Harbinger Group Inc. 2011 Omnibus Equity Award Plan, as may be amended from time to time.

Exhibit 18.1

August 7, 2013

Harbinger Group Inc.
New York, New York

Ladies and Gentlemen:

We have been furnished with a copy of the quarterly report on Form 10-Q of Harbinger Group Inc. (the “Company”) for the three and nine months ended June 30, 2013, and have read the Company's statements contained in Note 2 to the condensed consolidated financial statements included therein. As stated in Note 2, the Company changed its method of presenting tax withholdings for share-based payment awards paid to a taxing authority on behalf of an employee from an operating activity to a financing activity within its statements of cash flows, and states that the newly adopted accounting principle is preferable in the circumstances because the predominant characteristic of such transaction is a financing activity. In accordance with your request, we have reviewed and discussed with Company officials the circumstances and business judgment and planning upon which the decision to make this change in the method of accounting was based.

We have not audited any financial statements of the Company as of any date or for any period subsequent to September 30, 2012, nor have we audited the information set forth in the aforementioned Note 2 to the condensed consolidated financial statements; accordingly, we do not express an opinion concerning the factual information contained therein.

With regard to the aforementioned accounting change, authoritative criteria have not been established for evaluating the preferability of one acceptable method of accounting over another acceptable method. However, for purposes of the Company's compliance with the requirements of the Securities and Exchange Commission, we are furnishing this letter.

Based on our review and discussion, with reliance on management's business judgment and planning, we concur that the newly adopted method of accounting is preferable in the Company's circumstances.

Very truly yours,

/s/ KPMG LLP
New York, New York

Exhibit 31.1

CERTIFICATION OF CEO PURSUANT TO RULE 13a-14(a) or 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Philip A. Falcone, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Harbinger Group Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 8, 2013

/s/ PHILIP A. FALCONE

Philip A. Falcone

Chairman of the Board and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CFO PURSUANT TO RULE 13a-14(a) or 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas A. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Harbinger Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2013

/s/ THOMAS A. WILLIAMS

Thomas A. Williams

Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CEO PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Harbinger Group Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Philip A. Falcone, as Chairman of the Board and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PHILIP A. FALCONE

Philip A. Falcone

Chairman of the Board and Chief Executive Officer

August 8, 2013

This Certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Exhibit 32.2

CERTIFICATION OF CFO PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Harbinger Group Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Thomas A. Williams, as the Executive Vice President and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ THOMAS A. WILLIAMS

Thomas A. Williams

Executive Vice President and Chief Financial Officer

August 8, 2013

This Certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.