HARBINGER GROUP INC.
Form 424B3
December 12, 2012
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Filed Pursuant to Rule 424(b)(3)
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The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. A registration statement relating to these securities has become effective under the Securities Act of 1933, as amended. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and they are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale of these securities is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 12, 2012

PROSPECTUS SUPPLEMENT

(to Prospectus dated March 22, 2012)

Shares

Harbinger Group Inc.

Common Stock

This is an offering of shares of the common stock by the selling stockholders identified in this prospectus supplement. We will not receive any proceeds from the sale of shares by the selling stockholders. We have agreed to bear all of the expenses incurred in connection with the registration of these shares. The selling stockholders identified in this prospectus supplement will pay underwriting discounts and commissions and any transfer taxes incurred for the sale of shares of our common stock. Our common stock is listed on the New York Stock Exchange (the NYSE) under the symbol HRG. On December 11, 2012, the closing sale price of our common stock on the NYSE was $10.60 per share.

Investing in our common stock involves a high degree of risk. Please read Risk Factors beginning on page S-16 of this prospectus supplement, on page 2 of the accompanying prospectus and in the documents incorporated by reference into this prospectus supplement.

Neither the Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PER SHARE	TOTAL
Public Offering Price	$	$
Underwriting Discounts and Commissions		
Proceeds to Selling Stockholders, before expenses		

Delivery of the shares of common stock is expected to be made on or about , 2012. The selling stockholders identified in this prospectus supplement have granted the underwriters an option for a period of 30 days to purchase an additional shares of the common stock. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by the selling stockholders identified in this prospectus supplement will be $, and the total proceeds to the selling stockholders identified in this prospectus supplement, before expenses, will be $.

Sole Book-Running Manager

Jefferies

Co-Manager

Cantor Fitzgerald & Co.

Prospectus Supplement dated , 2012

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Prospectus Supplement

Prospectus

Neither we nor the underwriters have authorized any person to provide you with any information or represent anything about us or this offering or the selling stockholders that is not contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. If given or made, any such other information or representation should not be relied upon as having been authorized by us, the selling stockholders or the underwriters. We are not, the selling stockholders are not, and the underwriters are not, making an offer to sell the common stock in any jurisdiction where an offer or sale is not permitted.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part is the accompanying prospectus, which contains more general information, some of which may not apply to this offering. You should read both this prospectus supplement and the accompanying prospectus, together with additional information described below under the heading Where You Can Find More Information.

If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement. Any statement made in this prospectus supplement or in a document incorporated or deemed to be incorporated by reference in this prospectus supplement will be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained in this prospectus supplement or in any other subsequently filed document that is also incorporated or deemed to be incorporated by reference in this prospectus supplement modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement.

This prospectus supplement may be used only for the purpose for which it has been prepared. No one is authorized to give information other than that contained in this prospectus supplement, the accompanying prospectus and any free writing prospectus we have authorized for use in connection with this offering and in the documents incorporated by reference herein, in the accompanying prospectus or any such free writing prospectus. We, the selling stockholders and the underwriters have not authorized any other person to provide you with different or additional information. We, the selling stockholders and the underwriters take no responsibility for, and provide no assurance as to the reliability of, any other information that others give you.

The selling stockholders and the underwriters are not making an offer to sell our common stock in any jurisdiction where the offer or sale is not permitted. You should not assume that the information appearing in this prospectus supplement, the accompanying prospectus, any free writing prospectus we have authorized for use in connection with this offering or any document incorporated by reference herein or therein is accurate as of any date other than the date of the applicable document. Our business, financial condition, results of operations, and prospects may have changed since that date. Neither this prospectus supplement nor the accompanying prospectus constitutes an offer, or an invitation on our or the underwriters or the selling stockholders behalf, to subscribe for and purchase any of the securities, and may not be used for or in connection with an offer or solicitation by anyone, in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation.

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus, the documents incorporated by reference 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 Harbinger Group Inc. s (HGI) management and the management of HGI s subsidiaries (including target businesses). Generally, forward-looking statements include information concerning possible or assumed future actions, events, results, strategies and expectations and are generally identifiable by use of the words believes, expects, intends, anticipates, plans, seeks, estimates, projects could, might, or continues or similar expressions. Factors that could cause actual results, events and developments to differ include, without limitation: the ability of HGI s subsidiaries (including, target businesses following their acquisition) to generate sufficient net income and cash flows to make upstream cash distributions, capital market conditions, HGI s and its subsidiaries ability to identify any suitable future acquisition opportunities, efficiencies/cost avoidance, cost savings, income and margins, growth, economies of scale, combined operations, future economic performance, conditions to, and the timetable for, completing the integration of financial reporting of acquired or target businesses with HGI or HGI subsidiaries, completing future acquisitions and dispositions, litigation, potential and contingent liabilities, management s plans, changes in regulations and taxes.

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

Forward-looking statements are not guarantees of performance. You should understand that the following important factors, in addition to those discussed under the section entitled Risk Factors appearing in this prospectus supplement and under Part 1: Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ending September 30, 2012 (the 2012 Annual Report) and Risk Factors in our Form 8-K filed on December 11, 2012, each of which is incorporated by reference into this prospectus supplement and other risk factors that appear in our periodic SEC filings as incorporated by reference in this prospectus supplement, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. You should also understand that many factors described under one heading below may apply to more than one section in which we have grouped them for the purpose of this presentation. As a result, you should consider all of the following factors, together with all of the other information presented herein, in evaluating the business of the Company and our subsidiaries.

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:

n 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;

n the need to provide sufficient capital to our operating businesses;

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

n the impact of covenants in the indenture, dated November 15, 2010, and supplemented by the supplemental indenture, dated June 22, 2011, and the second supplemental indenture, dated June 28, 2011 (as supplemented, the Indenture), governing our $500 million 10.625% senior secured notes due 2015 (the 10.625% Notes) and our preferred stock certificates of designation (together, the Certificate of Designation), and future financing or refinancing agreements, including the proposed new senior secured notes described elsewhere in this prospectus supplement, on our ability to operate our business and finance our pursuit of additional acquisition opportunities;

n

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;

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- the impact on the aggregate value of our assets and our stock price from changes in the market prices of publicly traded equity interests we hold, particularly during times of volatility in security prices;
- the impact of additional material charges associated with our oversight of acquired or target businesses and the integration of our financial reporting;
- the impact of restrictive stockholder agreements and securities laws on our ability to dispose of equity interests we hold;
- the impact of decisions by our controlling stockholders, whose interest may differ from those of our other stockholders, or their ceasing to remain controlling stockholders;
- the effect interests of our officers, directors, stockholders and their respective affiliates may have in certain transactions in which we are involved;
- our dependence on certain key personnel;
- the impact of potential losses and other risks from changes in our portfolio of securities;
- our ability to effectively increase the size of our organization and manage our growth;
- the impact of a determination that we are an investment company or personal holding company;
- the impact of future claims arising from operations, agreements and transactions involving former subsidiaries;
- the impact of expending significant resources in considering acquisition targets or business opportunities that are not consummated;
- the ability of HGI Energy Holdings, LLC to consummate the joint venture transaction with EXCO Resources, Inc. to form a partnership for the purpose of holding certain oil, gas and mineral leases and wells and certain related assets;
- tax consequences associated with our acquisition, holding and disposition of target companies and assets;
- the impact of delays or difficulty in satisfying the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 or negative reports concerning our internal controls;
- the impact of the relatively low market liquidity for our common stock; and
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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 Holdings, Inc. (Spectrum Brands)

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

- the impact of Spectrum Brands substantial indebtedness on its business, financial condition and results of operations;
- the impact of restrictions in Spectrum Brands debt instruments on its ability to operate its business, finance its capital needs or pursue or expand business strategies;
- any failure to comply with financial covenants and other provisions and restrictions of Spectrum Brands debt instruments;
- Spectrum Brands ability to successfully integrate the business acquired in connection with the combination with HHI (as defined herein) and achieve the expected synergies from that integration at the expected costs;
- the impact of expenses resulting from the implementation of new business strategies, divestitures or current and proposed restructuring activities;
- the impact of fluctuations in commodity prices, costs or availability of raw materials or terms and conditions available from suppliers, including suppliers willingness to advance credit;
- interest rate and exchange rate fluctuations;
- the loss of, or a significant reduction in, sales to a significant retail customer(s);
- competitive promotional activity or spending by competitors or price reductions by competitors;
- the introduction of new product features or technological developments by competitors and/or the development of new competitors or competitive brands;

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- the effects of general economic conditions, including inflation, recession or fears of a recession, depression or fears of a depression, labor costs and stock market volatility or changes in trade, monetary or fiscal policies in the countries where Spectrum Brands does business;
- changes in consumer spending preferences and demand for Spectrum Brands products;
- Spectrum Brands ability to develop and successfully introduce new products, protect its intellectual property and avoid infringing the intellectual property of third parties;
- Spectrum Brands ability to successfully implement, achieve and sustain manufacturing and distribution cost efficiencies and improvements, and fully realize anticipated cost savings;
- the cost and effect of unanticipated legal, tax or regulatory proceedings or new laws or regulations (including environmental, public health and consumer protection regulations);
- public perception regarding the safety of Spectrum Brands products, including the potential for environmental liabilities, product liability claims, litigation and other claims;
- the impact of pending or threatened litigation;
- changes in accounting policies applicable to Spectrum Brands business;
- government regulations;
- the seasonal nature of sales of certain of Spectrum Brands products;
- the effects of climate change and unusual weather activity;
- the effects of political or economic conditions, terrorist attacks, acts of war or other unrest in international markets;
- the risk that synergies will not be realized following the consummation of the acquisition of HHI; and
- the ability of SBI (as defined herein) to consummate the acquisition of HHI.

Fidelity & Guaranty Life Holdings, Inc. (FGL) and Front Street Re Ltd. (Front Street)

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

- FGL s insurance subsidiaries ability to maintain and improve their financial strength ratings;
- FGL s and its insurance subsidiaries need for additional capital in order to maintain the amount of statutory capital that they must hold to maintain their financial strength and credit ratings and meet other requirements and obligations;
- FGL s ability to manage its business in a highly regulated industry, which is subject to numerous legal restrictions and regulations;
- availability of reinsurance and credit risk associated with reinsurance;
- the accuracy of FGL s assumptions and estimates regarding future events and ability to respond effectively to such events, including mortality, persistency, expenses and interest rates, tax liability, business mix, frequency of claims, contingent liabilities, investment performance, and other factors related to its business and anticipated results;
- the impact of interest rate fluctuations on FGL;
- the availability of credit or other financings and the impact of equity and credit market volatility and disruptions on FGL;
- changes in the Federal income tax laws and regulations which may affect the relative income tax advantages of FGL s products;
- FGL s ability to defend itself against litigation (including class action litigation) and respond to enforcement investigations or regulatory scrutiny;
- the performance of third parties including distributors and technology service providers, and providers of outsourced services;
- the impact of new accounting rules or changes to existing accounting rules on FGL;
- FGL s ability to protect its intellectual property;
- general economic conditions and other factors, including prevailing interest and unemployment rate levels and stock and credit market performance which may affect (among other things) FGL s ability to sell its

products, its ability to access capital resources and the costs associated therewith, the fair value of its investments, which could result in impairments and other-than-temporary impairments, and certain liabilities, and the lapse rate and profitability of policies;

- regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) underwriting of insurance products and regulation of the sale, underwriting and pricing of products and minimum capitalization and statutory reserve requirements for insurance companies;
- the impact on FGL of man-made catastrophes, pandemics, computer 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;
- Front Street s ability to effectively implement its business strategy, including the need for capital; and
- the ability to obtain approval of the Maryland Insurance Administration (MIA) and other regulatory authorities as required for FGL s operations.

Salus Capital Partners, LLC (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.

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 prospectus supplement. 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 prospectus supplement or to reflect actual outcomes.

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SUMMARY

The following summary highlights basic information about us and this offering. It may not contain all of the information that is important to you. For a more comprehensive understanding of our business and the offering, you should read this entire prospectus supplement and the documents incorporated by reference herein, including the sections entitled Risk Factors included or incorporated by reference herein and the historical and pro forma financial statements and the accompanying notes to those statements of HGI, Spectrum Brands, HFG, HGI Funding, HHI and EXCO/HGI Partnership (each as defined below). Certain statements in this summary are forward-looking statements. See Special Note Regarding Forward-Looking Statements.

Unless otherwise indicated in this prospectus supplement or the context requires otherwise, in this prospectus supplement, references to the Company, HGI, we, us or our refers to Harbinger Group Inc. and, where applicable, its consolidated subsidiaries; Harbinger Capital refers to Harbinger Capital Partners LLC; Harbinger Parties or Principal Stockholders refers, collectively, to Harbinger Capital Partners Master Fund I, Ltd. (the Master Fund), Harbinger Capital Partners Special Situations Fund, L.P. and Global Opportunities Breakaway Ltd.; 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); Front Street refers to Front Street Re Ltd; FGL refers to Fidelity & Guaranty Life Holdings, Inc. (formerly, Old Mutual U.S. Life Holdings, Inc.) and, where applicable, its consolidated subsidiaries; Salus refers to Salus Capital Partners, LLC; Stanley Black & Decker refers to Stanley Black & Decker, Inc.; HHI refers to the hardware and home improvement business currently owned by Stanley Black & Decker and certain of its subsidiaries; TLM Taiwan refers to the Tong Lung Metal Industry Co. Ltd., a Taiwan Corporation involved in the manufacturing of commercial and residential locksets; EXCO Parent refers to EXCO Resources, Inc.; HGI Energy refers to HGI Energy Holdings, LLC; and EXCO/HGI Partnership refers to the partnership to be formed in connection with the joint venture by HGI Energy and EXCO Parent (each as defined below).

In this prospectus supplement, on a pro forma basis, unless otherwise stated, means the applicable information is presented on a pro forma basis, giving effect to (i) the Hardware Acquisition (as defined below) (ii) the EXCO/HGI Closing (as defined below), (iii) the completion of the Tender Offer and the Redemption, if necessary, for all of our outstanding Existing Notes (each as defined below) and (iv) the new senior notes offering and the use of proceed from such offering. See Recent Developments.

Our Company

We are a diversified holding company focused on acquiring and investing in businesses with attractive assets that we consider to be undervalued or fairly valued and growing our acquired businesses. Our principal holdings include the following assets: (i) Spectrum Brands, our majority owned subsidiary that provides global branded consumer products; (ii) FGL, our wholly-owned indirect subsidiary that provides life insurance and annuity products; (iii) Salus, our wholly-owned indirect subsidiary, engaged in the business of providing secured asset-based loans across a variety of industries; (iv) Front Street, our wholly-owned indirect subsidiary, formed to act as a long-term reinsurer to provide reinsurance to the specialty insurance sector of fixed, deferred and payout annuities; (v) HGI Energy, our wholly-owned subsidiary that will, following the EXCO/HGI Closing, hold our interests in EXCO/HGI Partnership. While we search for additional acquisition opportunities, we manage a portion of our available cash and acquire interests in possible acquisition targets through our wholly-owned subsidiary, HGI Funding, a Delaware limited liability company. We were incorporated in Delaware in 1954 under the name Zapata Corporation and reincorporated in Nevada in April 1999 under the same name. On December 23, 2009, we reincorporated in Delaware under the name Harbinger Group Inc. Our common stock trades on the New York Stock Exchange (NYSE) under the symbol HRG.

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Our Competitive Strengths

Diverse and Uncorrelated Sources of Cash Flow

Our current operating subsidiaries and expected acquisitions across consumer, insurance and financial services and energy verticals provide us an uncorrelated number of subsidiary companies across a broad set of industries. As exemplified by Spectrum Brands recent proposed acquisition of HHI and our announced partnership with EXCO, we intend to acquire, both through our subsidiary companies and independently, attractive businesses that generate sustainable free cash flow and further diversify our revenues and cash flows. Our primary source of cash flow is dividends provided by our operating subsidiaries. We employ a conservative dividend strategy at our operating subsidiaries that aims to generate recurring cash flow streams to us while preserving sufficient capital for reinvestment and growth. During the fiscal year ending September 30, 2012 (Fiscal 2012), we received dividends from our subsidiaries totaling $71 million. We expect an increase in dividends received based upon a full year of dividends from Spectrum Brands and following the completion of the EXCO/HGI Closing.

Leading Brands and Growing Businesses

Our diversified holdings are anchored by our two largest subsidiary companies, Spectrum Brands and FGL. Spectrum Brands is a leading consumer products company with globally recognized brands throughout its various product categories. These brands have successfully produced top three global market positions in all of Spectrum Brands product categories, including global batteries and appliances, global pet supplies and home and garden. FGL has focused on a targeted suite of attractive insurance products, including fixed index annuities. According to AnnuitySpecs.com, FGL ranked within the top ten U.S. writers of fixed index annuities based on year to date sales through September 30, 2012. In addition to these established businesses, we believe that our growing subsidiary companies, including Salus, which has originated 15 loans since December 2011 through September 30, 2012 for total commitments of $260 million and $181 million aggregate principal amount outstanding, and the anticipated contributions of our EXCO/HGI Partnership help drive continued growth from multiple lines of businesses.

Attractive Operating Subsidiaries with Significant Value

We have acquired subsidiary companies that have generated significant value for us. As of September 30, 2012, Spectrum Brands had a market capitalization of $2.1 billion, of which our 57.4% ownership in Spectrum Brands outstanding shares of common stock represented $1.2 billion. Additionally, as of September 30, 2012, FGL, in which we maintain 100% ownership, had approximately $1.2 billion of U.S. generally accepted accounting principles (GAAP) shareholder s equity and $901 million of statutory capital.

Strong Liquidity Position

As of September 30, 2012, we had approximately $433 million in cash, cash equivalents and short-term investments at HGI, which includes $156 million of non-affiliate investments and cash that is held at our wholly-owned subsidiary, HGI Funding. Our liquidity provides us a significant advantage in pursuing acquisition opportunities.

Clear and Disciplined Acquisition Strategy

We utilize a clear, well defined acquisition strategy when evaluating acquisition opportunities. We attempt to acquire assets that we consider to be undervalued or fairly valued with attractive financial or strategic characteristics. We intend to bolster our existing businesses with accretive tuck-in and transformational transactions and continue to opportunistically diversify our existing verticals. Our management team constantly evaluates acquisition ideas with a focus on businesses that generate stable free cash flow where we can continue to build long-term value. We partner with high quality, proven management teams and work closely with those management teams to execute on strategic acquisitions and conservative financing strategies. Although we are continually evaluating acquisition opportunities, we are not pressured to deploy capital quickly.

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Favorable Corporate Structure Providing Enhanced Optionality

As a permanent capital vehicle, we can take a long-term view to investing and seek opportunities that generate attractive returns and significant cash flow in order to maximize value for our stockholders. Our corporate structure eliminates having to have a defined exit time horizon for our holdings and allows us to focus on owning companies and building value. Our structure permits us to take a long-term view, allowing us to take the time to work with our operating subsidiaries to foster development and growth. Additionally, we believe that our access to the public 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, debt or equity securities, or a combination thereof.

Experienced Management Team with Proven Track Record

The investment expertise and resources of our management team allow us to effectively pursue our business strategy. Our management team is comprised of industry professionals with expertise across a variety of industries, including consumer products and retail, insurance and financial services, energy, natural resources and agriculture. Led by Messrs. Falcone, Asali, Maura and Williams and other investment professionals, our management team has a proven track record. Collectively, Messrs. Falcone, Asali, Maura and Williams have an average 24 years of industry experience.

Our Strategy

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

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

Our Operating Subsidiaries

Spectrum Brands

Spectrum Brands, a Delaware corporation and a majority-owned subsidiary of HGI, is a diversified global branded consumer products company with three vertically integrated, product-focused reporting segments, comprising six major product categories with leading market positions: (i) Global Batteries & Appliances, which consists of Spectrum Brands worldwide battery and portable lighting, electric shaving and grooming, electric personal care businesses and small appliances primarily in the kitchen and home product categories; (ii) Global Pet Supplies, which consists of Spectrum Brands worldwide pet supplies business; and (iii) Home and Garden, which consists of Spectrum Brands home and garden and insect control business. Spectrum Brands common stock trades on the NYSE under the symbol SPB. As of September 30, 2012, HGI owned, directly and indirectly, approximately 57.4% of Spectrum Brands common stock.

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

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Spectrum Brands strategy is to provide quality and value to retailers and consumers worldwide. Most of Spectrum Brands products are marketed on the basis of providing the same performance as its competitors for a lower price or better performance for the same price. Spectrum Brands goal is to provide high quality products at an attractive margin to retail customers and value to consumers and to offer superior merchandising and category management. Spectrum Brands scale provides its customers with global sourcing, high quality and innovative products while maintaining strong retailer relationships with important mass merchandisers, home centers and pet superstores. Promotional spending focus is on winning at the point of sale, rather than incurring significant advertising expenses. Spectrum Brands has grown Adjusted EBITDA (as defined below) throughout the recent economic cycle primarily due to the resilient demand and superior value brand positioning of its consumer product offering and the continued emphasis on management of costs.

Spectrum Brands operates in several business categories in which it believes there are high barriers to entry and strives to achieve a low cost structure. Its global shared services administrative structure helps to maintain attractive margins and free cash flow. This operating model, referred to as the Spectrum value model, is what it believes will drive returns for investors and customers. In addition, many of its operating segments are complementary and are structured to drive free cash flow and Adjusted EBITDA growth. For example, the strong free cash flow generation of Global Batteries & Appliances, its largest segment, helps fund new product development and geographic growth opportunities, as well as fold-in acquisitions and cost improvements, in the Global Pet Supplies and Home and Garden Business segments. Furthermore, Spectrum Brands ability to generate substantial cash flow from operations, combined with its limited anticipated capital expenditure requirements enables it to reduce debt and return capital to shareholders. In Fiscal 2012, Spectrum Brands initiated a dividend policy and paid $30 million in dividends to HGI.

FGL

FGL, a Delaware corporation and indirectly wholly-owned subsidiary of HGI, is a provider of annuity and life insurance products in the United States. FGL operates its fixed annuity and life insurance operations 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). HGI acquired FGL from OM Group (UK) Limited (OM Group) on April 6, 2011 for a purchase price of $350 million.

As of September 30, 2012, FGL had cash of more than $1.0 billion and total investments of approximately $16.6 billion, GAAP shareholders equity of approximately $1.2 billion, statutory capital and surplus of $901 million and a risk based capital ratio of approximately 350%. As of September 30, 2012, FGL had no third party debt outstanding.

FGL offers a targeted suite of universal life and immediate and deferred annuity products, with its core focus on fixed indexed annuities (FIAs), to middle and upper-middle income individuals. As of September 30, 2012, FGL sold its products through a network of approximately 200 insurance marketing organizations (IMOs) representing approximately 19,000 independent agents and managing general agents. According to AnnuitySpecs.com, based on 2012 sales through September 30, 2012, FGL ranked as one of the ten largest writers of FIA in the United States.

FGL s deferred annuities include FIAs and fixed rate annuities. FIAs, also known as equity indexed annuities, are a niche product in the life and annuity space which have gained popularity in recent years. Primarily sold to middle income individuals, FIAs are a type of fixed annuity that offer the contract owners the possibility of earning higher credited rates of return than traditional fixed annuities (based on the performance of a specified market index) without risk to principal. To achieve this, the interest that would otherwise be credited to the contract owner s account value in a traditional fixed annuity is instead used to purchase call options and futures on the underlying index. The value to the contractholder of a FIA contract is equal to the sum of deposits paid, premium bonuses and credits earned (index credits), up to an overall limit on the amount of interest that an annuity will earn (a cap) or a percentage of the gain of a market index that will be credited to an annuity (a participation rate) based on the annual appreciation in a recognized index or benchmark.

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

FGL employs an outsourced operating model in which it internally manages differentiating services like asset management, actuarial, and product development while outsourcing other more administrative functions such as underwriting, claims administration, commission payment processing, application hosting and internal audit to third party providers. FGL closely manages outsourcing partners and integrates their service offerings. This outsourcing model provides predictable variable cost pricing, high service levels and volume scalability and allows FGL to exploit technological developments in a cost efficient manner.

FGL s earnings are primarily generated from the excess of net investment income earned over the interest credited or the cost of providing index credits to the policyholder, known as the net investment spread. With respect to FIAs, the cost of providing index credits includes the expenses incurred to fund the annual index credits and, where applicable, minimum guaranteed interest credited. Proceeds received upon expiration or early termination of call options purchased to fund annual index credits are recorded as part of the change in fair value of derivatives, and are largely offset by an expense for index credits earned on annuity contractholder fund balances.

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

In Fiscal 2012, FGL paid $40 million in dividends to HGI.

Front Street

Front Street, a Bermuda company and a wholly-owned subsidiary of HGI, was formed in March 2010 to act as a long-term reinsurer and to provide reinsurance to the specialty insurance sectors of fixed, deferred and payout annuities. In addition, Front Street Re (Cayman) Ltd. (Front Street Cayman), a Cayman entity and a wholly-owned subsidiary of HGI, was formed in October 2012 and received from the Cayman Islands Monetary Authority a license to carry on business as an Unrestricted Class B Insurer. Front Street and Front Street Cayman intend to enter into long-term reinsurance transactions with insurance companies, existing reinsurers, and pension arrangements, and may also pursue acquisitions in the same sector. As of September 30, 2012, FS Holdco Ltd. had capital in excess of $42 million.

Front Street focuses on life and fixed annuity reinsurance products, including reinsurance solutions that improve the financial position of clients by increasing their capital base and reducing leverage ratios through the assumption of life and fixed annuity reserves, and providing clients with exit strategies for discontinued life and fixed annuity lines of business, closed blocks of in-force life and fixed annuity business in run-off, or life and fixed annuity lines of business not providing a good fit for a company s growth strategies. With Front Street s ability to manage these contracts, its clients will be able to concentrate their efforts and resources on core strategies.

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

Salus

Salus, a Delaware limited liability company and a wholly-owned subsidiary of HGI, is a direct originator of secured asset-based loans to the middle market across a variety of industries. Salus commenced operations in

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December 2011 and finances loan commitments that typically range from $3 to $30 million with the ability to lead and agent larger transactions. Salus 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. From December 2011 through September 30, 2012, Salus originated 15 loans with an aggregate principal amount of $260 million and currently has $181 million outstanding. Salus loans are funded through capital commitments from HGI and funds committed by FGL as co-lender. Salus portfolio of asset-based loans receivable, included in Asset-backed loans and other invested assets in the Consolidated Balance Sheet as of September 30, 2012, consisted of the following (in thousands):

Asset-backed loans, by major industry:	September 30, 2012
Wholesale	$ 77,217
Apparel	70,073
Jewelry	27,829
Other	6,295
Total asset-backed loans	181,414
Allowance for credit losses	1,360
Total asset-backed loans, net	$ 180,054

As of September 30, 2012, Salus had no outstanding loans that either were non-performing, in non-accrual status, or had been subject to a troubled-debt restructuring. As of September 30, 2012, Salus had no outstanding loans that had been individually considered impaired, as all loans were in current payment status.

In the fiscal fourth quarter of 2012, Salus paid a dividend of $1 million to HGI.

HGI Energy

HGI Energy, a Delaware limited liability company and a wholly-owned subsidiary of HGI, was created for the purpose of establishing our energy vertical. On November 5, 2012, HGI Energy entered into a Unit Purchase and Contribution Agreement (the EXCO/HGI Purchase Agreement) with EXCO Parent, EXCO Operating Company, LP (EOC , and collectively with EXCO Parent, EXCO), a Delaware limited partnership, and EXCO/HGI JV Assets, LLC (MLP LLC), a Delaware limited liability company initially formed as an indirect wholly owned subsidiary of EXCO Parent, pursuant to which, at the closing of the transactions contemplated by the EXCO/HGI Purchase Agreement (the EXCO/HGI Closing), which will be effective in economic terms as of July 1, 2012, EXCO and HGI Energy have agreed to form EXCO/HGI Production Partners, LP (the EXCO/HGI Partnership), a Delaware limited partnership, and its general partner, EXCO/HGI GP, LLC, a Delaware limited liability company (the General Partner). See Recent Developments The EXCO/HGI Partnership.

Recent Developments

Hardware Acquisition

On October 8, 2012, SBI entered into an agreement (the HHI Acquisition Agreement) with Stanley Black & Decker to acquire the HHI business (the HHI Business) for $1.4 billion, consisting of (i) the equity interests of certain subsidiaries of Stanley Black & Decker engaged in the HHI Business and (ii) certain assets of Stanley Black & Decker used or held for use in connection with the HHI Business (the Hardware Acquisition). The Hardware Acquisition will also include the purchase of certain assets of TLM Taiwan, involved in the manufacturing of commercial and residential locksets (the TLM Residential Business). Currently, TLM Taiwan is an existing supplier to HHI. Stanley Black & Decker is currently in the process of completing the acquisition of all of the issued and outstanding shares of TLM Taiwan. As part of the HHI Acquisition Agreement, Stanley Black & Decker has agreed to sell to SBI the residential portion of the TLM Taiwan business along with the HHI Business, while retaining the commercial portion of the TLM Taiwan business.

The consummation of the Hardware Acquisition will take place in two separate closings. The first closing (the First Closing) will involve the acquisition of the HHI Business and is subject to certain conditions, including,

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

At the First Closing, SBI will pay Stanley Black & Decker a purchase price of $1.3 billion in cash to acquire the HHI Business, subject to adjustment for: (i) the net working capital of the HHI Business as of the First Closing, relative to a specified working capital target, and (ii) indebtedness of the HHI Business, net of certain cash and cash equivalents, as of the First Closing. At the Second Closing, SBI will pay Stanley Black & Decker a purchase price of $100 million to acquire the TLM Residential Business, subject to adjustment for indebtedness of the TLM Residential Business, net of certain cash and cash equivalents, as of the Second Closing. The purchase price for the TLM Residential Business, less any expected net debt of the TLM Residential Business, will be placed in an escrow account at the First Closing.

We believe the Hardware Acquisition will provide a basis to create substantial strategic and financial benefits to Spectrum Brands, as it: (i) creates a premier global products company that increases scale, product breadth and geographic diversification; (ii) improves channel mix and provides deeper penetration in key accounts; (iii) complements a portfolio of globally recognized brands; (iv) has the potential to increase topline growth, margins and free cash flow; and (v) has the potential to achieve meaningful cost improvements through its efficient global supply chain and continuous improvement program.

On November 16, 2012, Spectrum Brands Escrow Corp. issued $520 million aggregate principal amount of 6.375% Senior Notes due 2020 (the 2020 Notes) and $570 million aggregate principal amount of 6.625% Senior Notes due 2022 (the 2022 Notes). The notes will be assumed by Spectrum Brands upon the First Closing. Spectrum Brands intends to use the net proceeds from that offering to fund a portion of the purchase price and related fees and expenses for the Hardware Acquisition. Spectrum Brands intends to finance the remaining portion of the Hardware Acquisition, as well as refinance its existing term loan with a new $800 million senior secured term loan, which is expected to close concurrently with the First Closing. There can be no assurance that Spectrum Brands will be able to enter into the new term loan facility on terms acceptable to it or close its notes offering or the acquisition of the HHI Business or the TLM Residential Business.

The EXCO/HGI Partnership

Pursuant to the terms of the EXCO/HGI Purchase Agreement, the EXCO/HGI Partnership will be formed as a joint venture for the purpose of holding certain of EXCO Parent s oil, gas and mineral leases and wells located in shallow depths in the Permian Basin in West Texas and in East Texas/North Louisiana and contracts, easements, permits and rights-of-way, tangible assets, data and records, in each case, relating to such oil and gas properties (the Contributed Properties). Following the EXCO/HGI Closing, HGI will be partnered with a well-known established operator.

The EXCO/HGI Partnership Properties can generally be characterized as mature producers with long reserve lives and relatively low rates of decline. The assets in the EXCO/HGI Partnership include approximately 124,000 net mineral leasehold acres, of which approximately 90% are held-by-production and contain more than 1,400 producing wells. As of June 30, 2012, EXCO/HGI Partnership s total estimated proved reserves were approximately 456 billions of cubic feet equivalent (Bcfe), of which approximately 81% were gas, 9% oil and 10% natural gas liquid (NGL) with approximately 91% of total proved reserves classified as proved developed. While the EXCO/HGI Partnership is a private joint venture, its structure is consistent with publicly-traded master limited partnerships, giving the EXCO/HGI Partnership a higher degree of financing and growth optionality, including potentially accessing public equity and debt markets.

We believe the EXCO/HGI Partnership further diversifies us by establishing a new energy operating business to complement our existing consumer products and insurance and financial services verticals. The EXCO/HGI Partnership has the potential to generate steady production and reliable cash flow streams, providing us with additional dividends that are uncorrelated with our current operating companies and at the same time giving

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the EXCO/HGI Partnership the ability to reinvest in the business, maintain production and position it for further growth. Our permanent capital structure enables us to take a long-term view on the value of natural gas, with the potential for value accretion as natural gas prices recover over the long term. Furthermore, we believe the EXCO/HGI Partnership offers a platform to opportunistically add incremental cash flow through the acquisition of other mature, conventional assets over time.

Presentation of Partnership Properties

The EXCO/HGI Partnership is subject to certain closing conditions, including: the accuracy of EXCO Parent s and HGI Energy s respective representations and warranties; compliance by EXCO Parent and HGI Energy with their respective covenants; the absence of injunctions or certain suits or actions; the receipt of certain counterparty and regulatory consents; the receipt of the debt financing to the EXCO/HGI Partnership; the obtaining and maintenance of certain insurance coverage by EXCO Parent and the EXCO/HGI Partnership and its subsidiaries; the release of liens under certain existing debt of EXCO and its affiliates; the receipt by HGI Energy of certain historical financial statements relating to the EXCO Contributed Properties; and the satisfaction of certain other conditions. Upon the EXCO/HGI Closing, we will own 74.5% of the EXCO/HGI Partnership. There can be no assurances that we will consummate the EXCO/HGI Partnership.

Refinancing of our outstanding 10.625% Senior Secured Notes

On December 10, 2012, we commenced a cash tender offer relating to any and all of our $500,000,000 currently outstanding principal amount of 10.625% Senior Secured Notes due 2015 (the Existing Notes) and commenced a solicitation of consents from the holders of the Existing Notes to adopt certain amendments to the indenture governing the Existing Notes (the Tender Offer).

Upon completion of the Tender Offer, any Existing Notes that have not been tendered or accepted for payment will remain outstanding, unless otherwise redeemed or acquired by us. We currently plan to redeem any Existing Notes not tendered in the Tender Offer in accordance with the indenture by depositing with the trustee amounts sufficient to satisfy and discharge all obligations thereunder (the Redemption).

We expect to refinance the Existing Notes with $650,000,000 of new senior secured notes, which will be secured by the collateral that currently secures the Existing Notes. See Capitalization. Our refinancing is not contingent upon the consummation of this offering and this offering is not contingent upon the consummation of the refinancing.

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CORPORATE STRUCTURE

The following represents our current corporate structure.

(1) Zap.Com Corporation, a 98% owned subsidiary of HGI and our other wholly-owned direct subsidiaries, each of which has no current operations, are not reflected in the structure chart above. The above corporate structure chart also does not present a complete list of all entities below HGI s first tier corporate structure.

(2) HGI Energy will hold our interests in the EXCO/HGI Partnership following the EXCO/HHI closing.

Corporate Information

We were incorporated in Delaware in 1954 under the name Zapata Corporation and reincorporated in Nevada in April 1999 under the same name. On December 23, 2009, we reincorporated in Delaware under the name Harbinger Group Inc. Our common stock trades on the NYSE under the symbol HRG. Our principal executive offices are located at 450 Park Avenue, 27th Floor, New York, New York 10022, and our telephone number is (212) 906-8555. Our website address is www.harbingergroupinc.com. The information on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus.

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THE OFFERING

Common stock offered by the selling stockholders	shares.
Selling Stockholders	Harbinger Capital Partners Master Fund I, Ltd. Harbinger Capital Partners Special Situations Fund, L.P. Global Opportunities Breakaway Ltd.
Shares outstanding before and after this offering	shares.
Underwriters option	The underwriters have an option to purchase up to an additional shares from the selling stockholders at the public offering price, less underwriting discounts, for 30 days after the date of this prospectus supplement.
Use of proceeds	We will not receive any proceeds from the sale of shares of our common stock by the selling stockholders in this offering.
Risk factors	See the risks set forth under the caption Risk Factors in this prospectus supplement and under the caption Risk Factors in our 2012 Annual Report and in our Form 8-K filed on December 11, 2012, each of which is incorporated by reference in this prospectus supplement, and other information included or incorporated by reference in this prospectus supplement for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.
U.S. federal income tax considerations	For a discussion of material U.S. federal income tax consequences of the holding and disposition of shares of our common stock, see Material U.S. Federal Income Tax Considerations for Non-U.S. Holders of Common Stock.
Lock-Up Agreements	All directors and executive officers, certain employees, the Selling Stockholders and CF Turul Group, a beneficial owner of more than 5% of our outstanding stock, have entered into lock-up agreements with the underwriters, for further discussion. See Underwriting.
The NYSE Market trading symbol	HRG

Unless otherwise indicated, all share information in this prospectus supplement is based on 140,186,935 shares outstanding as of November 22, 2012 and excludes 16,171,710 shares of common stock reserved for issuance under our stock option plan.

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SUMMARY HISTORICAL CONSOLIDATED AND PRO FORMA COMBINED FINANCIAL DATA OF HGI

The following table sets forth selected historical financial information for the periods and as of the dates presented. On January 7, 2011, HGI completed its acquisition of a majority interest in Spectrum Brands (the Spectrum Brands Acquisition) pursuant to which the Principal Stockholders contributed 27,756,905 shares of Spectrum Brands common stock, (or approximately 54.5% of the then outstanding Spectrum Brands common stock, as of such date) to HGI in exchange for 119,909,829 newly issued shares of HGI common stock. Immediately prior to the Spectrum Brands Acquisition the Principal Stockholders held a controlling financial interest in both HGI and Spectrum Brands Holdings. As a result, the Spectrum Brands Acquisition is considered a transaction between entities under common control under Accounting Standards Codification (ASC) Topic 805 Business Combinations, and is accounted for similar to the pooling of interest method. In accordance with the guidance in ASC Topic 805, the assets and liabilities transferred between entities under common control are recorded by the receiving entity based on their carrying amounts (or at the historical cost basis of the parent entity, if these amounts differ). Although HGI was the issuer of shares in the Spectrum Brands Acquisition, Spectrum Brands Holdings was an operating business and HGI was not. Therefore, Spectrum Brands Holdings has been reflected as the predecessor and receiving entity in the Company s financial statements to provide a more meaningful presentation of the transaction. Accordingly, the Company s financial statements have been retrospectively adjusted to reflect as the Company s historical financial statements, those of Spectrum Brands Holdings and Spectrum Brands, and HGI s assets and liabilities have been recorded at the Principal Stockholders basis as of the date that common control was first established (June 16, 2010). In connection with the Spectrum Brands Acquisition, HGI changed its fiscal year end from December 31 to September 30 to conform to the fiscal year end of Spectrum Brands Holdings. References herein to Fiscal 2012, Fiscal 2011 and Fiscal 2010 refer to the fiscal years ended September 30, 2012, 2011 and 2010, respectively.

The summary financial information for Fiscal 2010 has been derived from HGI s retrospectively adjusted audited consolidated financial statements which reflect the results of Spectrum Brands prior to June 16, 2010 (the date common control was first established) and the combination of Spectrum Brands Holdings and HGI thereafter. The summary historical consolidated financial data presented below has been derived from HGI s audited consolidated financial statements.

The summary pro forma information gives effect to the (i) Hardware Acquisition and related financing, (ii) consummation of the EXCO/HGI Partnership and (iii) consummation of the refinancing. In the opinion of management, all adjustments necessary to reflect the pro forma effect of these transactions have been made. The summary pro forma financial information reflects historical financial information and has been prepared on the basis that the HHI acquisition by Spectrum Brands will be accounted for as a business combination using the acquisition method of accounting. In addition, the EXCO/HGI Partnership will be accounted for using the equity method of accounting, pursuant to a gross proportionate presentation, as HGI has significant influence but does not control the joint venture.

The financial information and other data included herein and incorporated by reference may not be indicative of future performance. This financial information and other data should be read in conjunction with the respective audited and unaudited consolidated financial statements of HGI, including the notes thereto and HGI s Management Discussion and Analysis of Financial Condition and Results of Operations, each of which has been incorporated by reference in this prospectus supplement. See Where Can You Find More Information. The summary pro forma information should also be read in conjunction with the information in Summary Unaudited Pro Forma Condensed Combined Financial Statements, HHI s historical financial statements and EXCO Resources, Inc. Certain Convential Oil and Natural Gas Properties Statements of Revenues and Direct Operating Expenses, all of which has been incorporated by reference in this prospectus supplement.

The unaudited pro forma condensed combined financial data is presented for comparative purposes only and does not necessarily indicate what future operating results or financial position of HGI will be following the consummation of the (i) Hardware Acquisition and related financing, (ii) consummation of the EXCO/HGI

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Partnership and (iii) consummation of the refinancing. The unaudited pro forma condensed combined financial statements do not reflect any revenue enhancements, cost savings from operating efficiencies, synergies or other restructurings, or the costs and related liabilities that would be incurred to achieve such revenue enhancements, cost savings from operating efficiencies, synergies or restructurings, which could result from the transactions.

	YEAR ENDED SEPTEMBER 30, HISTORICAL (in millions, except per share data)			UNAUDITED PRO FORMA
	2010 (1)	2011 (2)	2012	2012
Income Statement Data:				
Revenues	$ 2,567.0	$ 3,477.8	$ 4,480.7	$ 5,608.1
Operating income (3)	160.5	163.7	409.5	523.9
Income (loss) from continuing operations	(195.5)	7.4	110.7	99.9
Loss from discontinued operations, net of tax	(2.7)			
Net income (loss) (4)(5)(6)	(198.2)	7.4	110.7	99.9
Net income (loss) attributable to common and participating preferred stockholders (4)(5)(6)	(151.9)	22.2	29.9	26.3
Restructuring and related charges				
Cost of goods sold (7)	$ 7.1	$ 7.8	$ 9.8	$ 9.8
Selling, general and administrative expenses (7)	17.0	20.8	9.8	9.8
Interest expense (8)	(277.0)	(249.3)	(251.0)	(341.1)
(Increase) decrease in fair value of equity conversion feature of preferred stock		27.9	(156.6)	(156.6)
Bargain purchase gain from business acquisition		158.3		
Gain on contingent purchase price reduction			41.0	41.0
Per Share Data:				
Net income (loss) per common share:				
Basic	$ (1.15)	$ 0.11	$ 0.15	$ 0.13
Diluted (9)	(1.15)	0.09	0.15	0.13
Weighted average common shares outstanding:				
Basic	132.4	139.2	139.4	139.4
Diluted (9)	132.4	158.4	139.8	139.8
Cash Flow and Related Data:				
Net cash provided by operating activities	$ 51.2	$ 153.1	$ 618.7	
Capital expenditures (10)	40.4	38.2	53.5	
Depreciation and amortization (excluding amortization of debt issuance costs)	117.5	125.9	299.5	403.6
Balance Sheet Data (at year end):				
Cash and cash equivalents	$ 256.8	$ 1,137.4	$ 1,470.7	$ 1,355.1
Working capital (11)	673.7	982.2	864.8	973.7
Total assets	4,016.2	23,590.9	25,200.5	27,301.5
Total long-term debt, net of current portion	1,723.1	2,127.7	2,150.6	3,997.6
Total debt	1,743.8	2,143.8	2,167.0	4,010.1
Total stockholders equity	701.7	895.4	1,177.6	1,102.7

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

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

(3) Pursuant to the guidance in Financial Accounting Standards Board Codification Topic 350: *Intangibles-Goodwill and Other,* Spectrum Brands conducts its annual impairment testing of goodwill and indefinite-lived intangible assets. As a result of these analyses, Spectrum Brands recorded non-cash pretax impairment charges of approximately $32 million, in Fiscal 2011. See Note 10, Goodwill and Intangibles, of Notes to HGI s Consolidated Financial Statements incorporated by reference in and included in the 2012 Annual Report for further details on impairment charges.

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

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

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

(7) See Note 23, Restructuring and Related Charges, of Notes to HGI s Consolidated Financial Statements included in our 2012 Annual Report for further discussion.

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

(9) For Fiscal 2010, diluted average shares outstanding does not reflect any effect of preferred stock, which was not issued until Fiscal 2011, nor does it assume the exercise of common stock equivalents as the impact would be antidilutive. For Fiscal 2011, diluted weighted average common shares outstanding reflect the dilutive effect of preferred stock of 19.1 million shares and stock options of 0.1 million shares. In Fiscal 2012, diluted weighted average common shares outstanding assumes only the exercise of dilutive common stock equivalents as the conversion effect of preferred stock would be antidilutive. See Note 18, Earnings Per Share, of Notes to HGI s Consolidated Financial Statements included in our 2012 Annual Report for further details regarding the calculation of net income (loss) per common share.

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

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

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SUMMARY HISTORICAL FINANCIAL DATA OF HHI

The following table sets forth summary historical consolidated financial information of HHI for the periods and as of the date presented. The summary historical combined statements of operations for the years ended January 1, 2011 and December 31, 2011, and the combined balance sheet data as of January 1, 2011 and December 31, 2011 have been derived from financial statements incorporated by reference herein.

The summary historical combined statements of operations for the six month periods ended July 2, 2011 and June 30, 2012 and the combined balance sheet data as of June 30, 2012, in the opinion of HHI s management, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the results of operations and financial position of HHI for the periods and dates presented.

The results of operations for an interim period are not necessarily indicative of results for the full year or any other interim period. This financial information and other data should be read together with the combined financial statements of HHI, including the notes thereto, incorporated by reference herein. This information should also be read in conjunction with the unaudited pro forma condensed consolidated financial statements, included elsewhere in this prospectus supplement. The financial data of HHI does not include the TLM Residential Business, the acquisition of which is subject to separate closing conditions in connection with the Second Closing. For the last twelve-months ended December 31, 2011, the TLM Residential Business was not material to HHI.

	YEAR ENDED		SIX MONTHS ENDED	
	JANUARY 1, 2011	DECEMBER 31, 2011	JULY 2, 2011	JUNE 30, 2012
		(in millions)		
Statement of Operations:				
Net sales:				
Trade	$ 849.1	$ 942.9	$ 475.7	$ 472.7
Affiliate	15.1	32.1	15.2	20.6
Total net sales	864.2	975.0	490.9	493.3
Costs and expenses:				
Cost of sales trade	604.0	639.6	315.6	318.9
Cost of sales affiliate	13.8	30.1	14.6	19.8
Selling, general and administrative	178.8	189.8	96.4	91.1
Provision for doubtful accounts	0.1	0.8	0.4	0.1
Other affiliate income	(1.0)	(1.0)	(0.6)	(0.5)
Other net	14.6	21.7	10.7	9.5
Restructuring charges	11.9	3.2	3.6	2.7
Interest expense affiliate, net	41.9	42.7	22.6	17.6
Interest (income) expense trade, net	3.9	(0.6)	(0.3)	(0.3)
Total costs and expenses	868.0	926.3	463.0	458.9
Earnings (loss) before income taxes	(3.8)	48.7	27.9	34.4
Income taxes (benefit)	(0.7)	12.3	8.6	10.6
Net earnings (loss)	(3.1)	36.4	19.3	23.8
Net income attributable to non-controlling interests	(0.4)	(0.6)	(0.3)	(0.5)
Net earnings (loss) attributable to Parent Company	$ (3.5)	$ 35.8	$ 19.0	$ 23.3

Other Data:

Capital expenditures	$ 14.7	$ 22.6	$ 14.6	$ 4.7
Depreciation and amortization	42.2	43.2	22.7	21.7
Cash Flow:				
Net cash provided by (used in):				
Operating activities	$ (3.9)	$ 125.1	$ 69.9	$ 51.1
Investing activities	(14.1)	(22.5)	(14.5)	(4.7)
Financing activities	26.2	(105.2)	(58.6)	(42.9)
Balance Sheet Data (at period end):				
Cash and cash equivalents	$ 47.7	$ 44.8		$ 48.5
Working capital	80.2	35.2		68.2
Total assets	1,239.7	1,247.3		1,250.7
Long-term debt and other long term liabilities	478.8	388.0		336.2

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SUMMARY HISTORICAL FINANCIAL DATA OF EXCO/HGI PARTNERSHIP

The following table sets forth summary historical financial information for the natural gas and oil properties of the EXCO Parent to be contributed to the EXCO/HGI Partnership for the periods presented. The summary historical financial information associated with the EXCO/HGI Partnership for the years ended December 31, 2009, 2010 and 2011 was derived from the audited Statements of Revenue and Expenses incorporated by reference in this prospectus supplement. The summary historical financial information associated with the EXCO/HGI Partnership for the nine months ended September 30, 2011 and 2012 was derived from the unaudited interim Statements of Revenue and Expenses included elsewhere in this prospectus supplement. Results for the nine month period ended September 30, 2012 are not necessarily indicative of results that may be expected for the entire year.

The statements of revenue less direct operating expenses are being provided in lieu of the financial information regarding the business to be acquired by the EXCO/HGI Partnership, prepared in accordance with Rule 3-05 of Regulation S-X. During the periods presented, the business was not accounted for or operated as a consolidated entity or as a separate division by EXCO Parent. Revenues and direct operating expenses for the business included in the accompanying statements represent revenues less direct operating expenses of the properties to be acquired by the EXCO/HGI Partnership. The revenues and direct operating expenses presented herein relate only to the Contributed Properties and do not represent all of the oil and natural gas operations of EXCO Parent, other owners, or other third party working interest owners. Direct operating expenses include lease operating expenses, gathering and treating costs and production and other tax expenses. Indirect general and administrative expenses and depreciation, depletion, and amortization of oil and gas properties and federal and state taxes have been excluded from direct operating expenses in the accompanying statements of revenues and direct operating expenses because the allocation of certain expenses would be arbitrary and would not be indicative of what such costs would have been had the business been acquired and operated as a standalone entity. Full separate financial statements prepared in accordance with GAAP do not exist for this business and are not practicable to prepare. The statements of revenues and direct operating expenses presented are not indicative of the results of operations of the EXCO/HGI Partnership on a go forward basis due to changes in the business and the omission of various operating expenses. This financial information should be read together with the accompanying notes to the statements of revenues and direct operating expenses included elsewhere in this prospectus supplement.

EXCO Resources, Inc.

Certain Conventional Oil and Natural Gas Properties

Statements of Revenues and Direct Operating Expenses

Years ended December 31, 2011, 2010 and 2009 and

Nine months ended September 30, 2012 and 2011 (Unaudited)

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	NINE MONTHS ENDED SEPTEMBER 30,
	2009	2010	2011	2011	2012
			(in millions)		
Revenues					
Oil and natural gas revenues	$ 299.3	$ 242.3	$ 224.3	$ 174.2	$ 118.9
Direct operating expenses:					
Oil and natural gas operating costs	74.6	61.1	56.5	41.0	33.7
Production and ad valorem taxes	26.6	21.8	19.7	16.1	14.3
Gathering and transportation	26.9	17.7	13.3	10.3	9.8
Total direct operating expenses	128.1	100.6	89.5	67.4	57.8

Excess of revenues over direct operating expenses	$ 171.2	$ 141.7	$ 134.8	$ 106.8	$ 61.1

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RISK FACTORS

An investment in our common stock involves risks. Before deciding whether to purchase our common stock, you should consider the risks disclosed below and under Risk Factors in the documents incorporated by reference. While we believe that these risks are the most important for you to consider, you should read this prospectus supplement, the accompanying prospectus and the documents incorporated by reference carefully, including our financial statements, the notes to our financial statements and management s discussion and analysis of our financial condition and results of operations, which are included in our periodic reports and incorporated into this prospectus supplement by reference. Any of these 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.

Risks Related to HGI

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

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

As an example, our subsidiary Spectrum Brands is a holding company with limited business operations of its own and its main assets are the capital stock of its subsidiaries, principally SBI. SBI s senior secured term loan due June 17, 2016 (the Term Loan), of which $370 million remained outstanding as of September 30, 2012, $950 million of 9.5% Senior Secured Notes maturing June 15, 2018 (the 9.5% Notes), and a $300 million asset based revolving loan facility expiring May 3, 2016, under which no amount was outstanding as of September 30, 2012 (the ABL Facility and together with the Term Loan and the 9.5% Notes, the Senior Secured Facilities) and SBI s $300 million of 6.75% Senior Notes due 2020 (the 6.75% Notes) and other agreements substantially limit or prohibit certain payments of dividends or other distributions to Spectrum Brands. In addition, Spectrum Brands expects to increase its total indebtedness by approximately $1.5 billion in connection with the HHI acquisition, which will consist of $520 million of the 2020 Notes, $570 million of the 2022 Notes and $800 million of the New Term Loan Facility, $370 million of which will be used to refinance its existing indebtedness. Such additional financing will have similar terms.

Specifically, (i) each indenture of SBI generally prohibits the payment of dividends to shareholders except out of a cumulative basket based on an amount equal to the excess of (a) 50% of the cumulative consolidated net income of SBI adjusted for certain items plus (b) 100% of the aggregate cash proceeds from the sale of equity by SBI (or less 100% of the net losses) plus (c) any repayments to SBI of certain investments plus (d) in the case of the indenture governing SBI s 6.75% Notes (the 2020 Indenture), $80 million, (e) in the case of the indenture governing SBI s 9.5% Notes (the 2018 Indenture), $75 million, subject to certain other tests and certain exceptions and (ii) SBI s

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term loan facility limits payment of dividends to stockholders to $40 million per year plus a cumulative basket based on the annual portion of excess cash flow not required to be paid to the lenders while dividend payments under SBI s asset-based revolving facility are subject to satisfying certain minimum availability and fixed charge coverage rate tests. We expect that future debt of Spectrum Brands and SBI, including the debt to be assumed by SBI upon the First Closing, which will consist of the 2020 Notes, the 2022 Notes and the New Term Loan Facility, will contain similar restrictions. For example, the indenture governing the 2020 Notes and the 2022 Notes, which SBI would assume upon the First Closing, would also prohibit the payment of dividends to shareholders except out of a cumulative basket based on an amount equal to the excess of clauses (a), (b) and (c) above plus the greater of 10% of SBI s consolidated net tangible assets and $120 million. There can be no assurances that SBI will consummate the Hardware Acquisition.

FGL is also a holding company with limited business operations of its own. Its main assets are the capital stock of its subsidiaries, which are principally regulated insurance companies, whose ability to pay dividends is limited by applicable insurance laws. See Item 1 FGL Regulation Dividend and Other Distribution Payment Limitations in our 2012 Annual Report.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- incur additional indebtedness;

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

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

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

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

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

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

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

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

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

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

- default and foreclosure on our assets if our operating revenues after an investment or acquisition are insufficient to repay our financial obligations;

- acceleration of our obligations to repay the financial obligations even if we make all required payments when due if we breach certain covenants that require the maintenance of certain financial ratios or reserves without a waiver or renegotiation of that covenant;
- our immediate payment of all amounts owed, if any, if such financial obligations are payable on demand;
- our inability to obtain necessary additional financing if such financial obligations contain covenants restricting our ability to obtain such financing while the financial obligations remain outstanding;
- our inability to pay dividends on our capital stock;
- using a substantial portion of our cash flow to pay principal and interest or dividends on our financial obligations, which will reduce the funds available for dividends on our common stock if declared, expenses, capital expenditures, acquisitions and other general corporate purposes;
- limitations on our flexibility in planning for and reacting to changes in our business and in the industries in which we operate;
- an event of default that triggers a cross default with respect to other financial obligations, including the notes and our preferred stock;
- increased vulnerability to adverse changes in general economic, industry, financial, competitive, legislative, regulatory and other conditions and adverse changes in government regulation; and
- limitations on our ability to borrow additional amounts for expenses, capital expenditures, acquisitions, debt service requirements, execution of our strategy and other purposes and other disadvantages compared to our competitors.

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

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

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

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

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

- significantly dilute the equity interest and voting power of all other stockholders;
- further subordinate the rights of holders of our common stock if further preferred stock is issued with rights senior to those afforded our common stock;
- call for us to make dividend or other payments not available to the holders of our common stock;
- may adversely affect the prevailing market price of our common stock; and
- could cause a change in control of our company if a substantial number of shares of our common stock is issued and/or if the purchase price of the preferred stock continues to accrete, which may affect, among other things, our ability to use our net operating loss carryforwards, if any; and our ability to retain our

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status as a controlled company , which may cause a change in control under the Indenture or Certificate of Designation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- the authority of our Board to issue, without stockholder approval, up to 10,000,000 shares of our preferred stock with such terms as our Board may determine;
- special meetings of our stockholders may be called only by the Chairman of our Board or by our Secretary upon delivery of a written request executed by three directors (or, if there are fewer than three directors in office at that time, by all incumbent directors);
- a staggered Board as a result of which only one of the three classes of directors is elected each year;
- advance notice requirements for nominations for election to our Board or for proposing matters that can be acted on by stockholders at stockholder meetings;
- the absence of cumulative voting rights; and
- subject to any special rights of the holders of the holders of our preferred stock to elect directors, removal of incumbent directors only for cause.

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

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

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

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

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

At HGI, the parent company, we do not have significant operating assets and have only 19 employees as of September 30, 2012. In connection with the completion of the Spectrum Brands Acquisition and the acquisition of FGL pursuant to the F&G Stock Purchase Agreement (Fidelity & Guaranty Acquisition), and particularly so we may proceed with other acquisitions or investments, we expect to require additional personnel and enhanced information technology systems. Future growth will increase corporate operating costs and impose significant added

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responsibilities on members of our management, including the need to identify, recruit, maintain and integrate additional employees and implement enhanced informational technology systems. Our future financial performance and our ability to compete effectively will depend, in part, on our ability to manage any future growth effectively. Future growth will also increase our costs and expenses and limit our liquidity.

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

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

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

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

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

Throughout our history, we have entered into numerous transactions relating to the sale, disposal or spinoff of partially and wholly owned subsidiaries. We may have continuing obligations pursuant to certain of these transactions, including obligations to indemnify other parties to agreements, and may be subject to risks resulting from these transactions. See Item 3, Legal Proceedings, in our 2012 Annual Report.

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

We and our subsidiaries are or may become parties to legal proceedings that are considered to be either ordinary or routine litigation incidental to our or their current or prior businesses or not material to our consolidated financial

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

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

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

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

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

As of September 30, 2012, HGI and Spectrum Brands had U.S. Federal net operating loss (NOL) carryforwards of approximately $122 million and $1,305 million, respectively, that, if unused, will expire through year 2032. Spectrum Brands also had state and local NOL carryforwards of approximately $1,341 million at September 30, 2012, that if unused, will expire through year 2032 and had foreign loss carryforwards of approximately $119 million which will expire beginning in 2016. As of September 30, 2012, FGL had U.S. Federal NOL carryforwards of approximately $87 million that, if unused, will expire in years 2026 through 2032 and had capital loss carryforwards of approximately $552 million that, if unused, will expire through year 2017. In addition, any future subsidiary that HGI or its subsidiaries may acquire may also have significant Federal, state, local and foreign NOL carryforwards. Both HGI and Spectrum Brands have established full valuation allowances for these deferred tax assets, and FGL has established a partial valuation allowance, based on their assessments of the amounts of deferred tax assets that are more-likely-than-not realizable.

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

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

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

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

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

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

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

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

Limitations on liability and indemnification matters.

As permitted by Delaware law, we have included in our amended and restated certificate of incorporation a provision to eliminate the personal liability of our directors for monetary damages for breach or alleged breach of their fiduciary duties as directors, subject to certain exceptions. Our bylaws also provide that we are required to indemnify our directors under certain circumstances, including those circumstances in which indemnification would otherwise be discretionary, and we will be required to advance expenses to our directors as incurred in connection with proceedings against them for which they may be indemnified. In addition, we may, by action of our Board, provide indemnification and advance expenses to our officers, employees and agents (other than directors), to directors,

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officers, employees or agents of a subsidiary of our company, and to each person serving as a director, officer, partner, member, employee or agent of another corporation, partnership, limited liability company, joint venture, trust or other enterprise, at our request, with the same scope and effect as the indemnification of our directors provided in our bylaws.

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

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

- actual or anticipated fluctuations in our results of operations and the performance of our subsidiaries and their competitors;
- reaction of the market to our announcement of any future acquisitions or investments;
- the public s reaction to our press releases, our other public announcements and our filings with the SEC;
- changes in general economic conditions;
- the U.S. federal government not achieving a resolution that would mitigate the impact of the significant mandated tax increases and government spending cuts beginning in January 2013 (the Fiscal Cliff);
- actions of our historical equity investors, including sales of common stock by our Principal Stockholders, our directors and our executive officers; and
- actions by institutional investors trading in our stock.

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

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

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

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

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

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

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

Risks Related to Spectrum Brands

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

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

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

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

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

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

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

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

SBI s Senior Secured Facilities and the 2020 Indenture each restrict, among other things, asset dispositions, mergers and acquisitions, dividends, stock repurchases and redemptions, other restricted payments, indebtedness and preferred stock, loans and investments, liens and affiliate transactions. SBI s Senior Secured Facilities and the 2020 Indenture also contain customary events of default. These covenants, among other things, limit SBI s ability to fund future working capital and capital expenditures, engage in future acquisitions or development activities, or otherwise realize the value of its assets and opportunities fully because of the need to dedicate a portion of cash flow from operations to payments on debt. In addition, SBI s Senior Secured Facilities contain financial covenants relating to maximum leverage and minimum interest coverage. Such covenants could limit the flexibility of SBI s restricted entities in planning for, or reacting to, changes in the industries in which they operate. SBI s ability to comply with these covenants is subject to certain events outside of its control. If SBI is unable to comply with these covenants, the lenders under the SBI s Senior Secured Facilities or SBI s 6.75% Notes could terminate their commitments and the lenders under SBI s Senior Secured Facilities or SBI s 6.75% Notes could accelerate repayment of its outstanding borrowings, and, in either case, SBI may be unable to obtain adequate refinancing of outstanding borrowings on favorable terms. If SBI is unable to repay outstanding borrowings when due, the lenders under SBI s Senior Secured Facilities or SBI s 6.75% Notes will also have the right to proceed against the collateral granted to them to secure the

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indebtedness owed to them. If SBI s obligations under the its Senior Secured Facilities or its 6.75% Notes are accelerated, it cannot assure you that its assets would be sufficient to repay in full such indebtedness.

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

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

Spectrum Brands faces risks related to the current economic environment.

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

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

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

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

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

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

The markets in which Spectrum Brands participates are very competitive. In the consumer battery market, its primary competitors are Duracell (a brand of The Procter & Gamble Company), Energizer and Panasonic (a brand of

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

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

- Spectrum Brands competes against many well-established companies that may have substantially greater financial and other resources, including personnel and research and development, and greater overall market share than Spectrum Brands.
- In some key product lines, Spectrum Brands competitors may have lower production costs and higher profit margins than it, which may enable them to compete more aggressively in offering retail discounts, rebates and other promotional incentives.
- Product improvements or effective advertising campaigns by competitors may weaken consumer demand for Spectrum Brands products.
- Consumer purchasing behavior may shift to distribution channels where Spectrum Brands does not have a strong presence.
- Consumer preferences may change to lower margin products or products other than those Spectrum Brands markets.
- Spectrum Brands may not be successful in the introduction, marketing and manufacture of any new products or product innovations or be able to develop and introduce, in a timely manner, innovations to its existing products that satisfy customer needs or achieve market acceptance.

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

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

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

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

On a consolidated basis, Spectrum Brands financial results are approximately equally weighted between quarters, however, sales of certain product categories tend to be seasonal. Sales in the consumer battery, electric shaving and

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

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

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

- currency fluctuations, including, without limitation, fluctuations in the foreign exchange rate of the Euro;
- changes in the economic conditions or consumer preferences or demand for its products in these markets;
- the risk that because its brand names may not be locally recognized, Spectrum Brands must spend significant amounts of time and money to build brand recognition without certainty that it will be successful;
- labor unrest;
- political and economic instability, as a result of terrorist attacks, natural disasters or otherwise;
- lack of developed infrastructure;
- longer payment cycles and greater difficulty in collecting accounts;
- restrictions on transfers of funds;
- import and export duties and quotas, as well as general transportation costs;
- changes in domestic and international customs and tariffs;
- changes in foreign labor laws and regulations affecting its ability to hire and retain employees;

- inadequate protection of intellectual property in foreign countries;
- unexpected changes in regulatory environments;
- difficulty in complying with foreign law;
- difficulty in obtaining distribution and support; and
- adverse tax consequences.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Spectrum Brands sources many products from China and other Asian countries. To the extent the Chinese Renminbi (RMB) or other currencies appreciate with respect to the U.S. dollar, it may experience fluctuations in its results of operations. Since 2005, the RMB has no longer been pegged to the U.S. dollar at a constant exchange rate and

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instead fluctuates versus a basket of currencies. Although the People s Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate within a flexible peg range against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future Chinese authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

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

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

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

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

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

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

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

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

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

Many of the developing countries in which Spectrum Brands operates do not have significant governmental regulation relating to environmental safety, occupational safety, employment practices or other business matters routinely regulated in the U.S. or may not rigorously enforce such regulation. As these countries and their economies

develop, it is possible that new regulations or increased enforcement of existing regulations may increase the expense of doing business in these countries. In addition, social legislation in many countries in which Spectrum Brands operates may result in significantly higher expenses associated with labor costs, terminating employees or distributors and closing manufacturing facilities. Increases in Spectrum Brands costs as a result of increased regulation, legislation or enforcement could materially and adversely affect its business, results of operations and financial condition.

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

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

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

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

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

From time to time in the past, Spectrum Brands has been subject to claims that it is infringing the intellectual property of others. Spectrum Brands currently is the subject of such claims and it is possible that third parties will assert infringement claims against Spectrum Brands in the future. An adverse finding against Spectrum Brands in these or similar trademark or other intellectual property litigations may have a material adverse effect on Spectrum Brands business, financial condition and results of operations. Any such claims, with or without merit, could be

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time consuming and expensive, and may require Spectrum Brands to incur substantial costs, including the diversion of the resources of management and technical personnel, cause product delays or require Spectrum Brands to enter into licensing or other agreements in order to secure continued access to necessary or desirable intellectual property. If Spectrum Brands is deemed to be infringing a third party s intellectual property and is unable to continue using that intellectual property as it had been, its business and results of operations could be harmed if it is unable to successfully develop non-infringing alternative intellectual property on a timely basis or license non-infringing alternatives or substitutes, if any exist, on commercially reasonable terms. In addition, an unfavorable ruling in intellectual property litigation could subject Spectrum Brands to significant liability, as well as require Spectrum Brands to cease developing, manufacturing or selling the affected products or using the affected processes or trademarks. Any significant restriction on Spectrum Brands proprietary or licensed intellectual property that impedes its ability to develop and commercialize its products could have a material adverse effect on its business, financial condition and results of operations.

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

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

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

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

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

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

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

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

Spectrum Brands and certain of its officers and directors have been named in the past, and may be named in the future, as defendants of class action and derivative action lawsuits. In the past, Spectrum Brands has also received requests for information from government authorities. Regardless of their subject matter or merits, class action

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lawsuits and other government investigations may result in significant cost to Spectrum Brands, which may not be covered by insurance, may divert the attention of management or may otherwise have an adverse effect on its business, financial condition and results of operations.

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

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

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

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

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

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

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

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Brands is currently engaged in investigative or remedial projects at a few of its facilities and any liabilities arising from such investigative or remedial projects at such facilities may have a material effect on Spectrum Brands business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

Approximately 33% of Spectrum Brands total labor force is covered by collective bargaining agreements. There are three collective bargaining agreements that will expire during fiscal year ending September 30, 2013, which cover approximately 64% of the labor force under collective bargaining agreements, or approximately 21% of Spectrum Brands total labor force. While Spectrum Brands currently expects to negotiate continuations to the terms of these agreements, there can be no assurances that it will be able to obtain terms that are satisfactory to it or otherwise to reach agreement at all with the applicable parties. In addition, in the course of its business, Spectrum Brands may also become subject to additional collective bargaining agreements. These agreements may be on terms that are less favorable than those under its current collective bargaining agreements. Increased exposure to collective bargaining agreements, whether on terms more or less favorable than existing collective bargaining agreements, could adversely affect the operation of Spectrum Brands business, including through increased labor expenses. While it intends to comply with all collective bargaining agreements to which it is subject, there can be no assurances that Spectrum Brands will be able to do so and any noncompliance could subject it to disruptions in its operations and materially and adversely affect its results of operations and financial condition.

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

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

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

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

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

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

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

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

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

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Risks Related to FGL s Business

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

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

Additionally, under some of its derivative contracts, FGL has agreed to maintain certain financial strength ratings. A downgrade below these levels could result in termination of the contracts, at which time any amounts payable by FGL or the counterparty would be dependent on the market value of the underlying derivative contracts. Downgrades of FGL s insurance subsidiaries have given multiple counterparties the right to terminate ISDA agreements. No ISDA agreements have been terminated, although the counterparties have reserved the right to terminate the ISDA agreements at any time.

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

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

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

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

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

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

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

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

Under insurance guaranty fund laws in most states, insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. FGL cannot predict the amount or timing of any such future assessments. Although FGL s business is subject to regulation in each state in which it conducts business, in many instances the state regulatory models emanate from the NAIC. State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer and at the expense of the insurer and, thus, could have a material adverse effect on FGL s business, operations and financial condition. FGL is also subject to the risk that compliance with any particular regulator s interpretation of a legal or accounting issue may not result in compliance with another regulator s interpretation of the same issue, particularly when compliance is judged in hindsight. There is an additional risk that any particular regulator s interpretation of a legal or accounting issue may change over time to FGL s detriment, or that changes to the overall legal or market environment, even absent any change of interpretation by a particular regulator, may cause FGL to change its views regarding the actions it needs to take from a legal risk management perspective, which could necessitate changes to FGL s practices that may, in some cases, limit its ability to grow and improve profitability.

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

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

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

The Dodd-Frank Wall Street and Consumer Protection Act (the Dodd-Frank Act) makes sweeping changes to the regulation of financial services entities, products and markets. Certain provisions of the Dodd-Frank Act are or may become applicable to FGL, its competitors or those entities with which FGL does business, including but not limited to: the establishment of federal regulatory authority over derivatives, the establishment of consolidated federal regulation and resolution authority over systemically important financial services firms, the establishment of the Federal Insurance Office, changes to the regulation of broker dealers and investment advisors, changes to the regulation of reinsurance, changes to regulations affecting the rights of shareholders, the imposition of additional regulation over credit rating agencies, and the imposition of concentration limits on financial institutions that restrict the amount of credit that may be extended to a single person or entity. Numerous provisions of the Dodd-Frank Act require the adoption of implementing rules and/or regulations. In addition, the Dodd-Frank Act mandates multiple studies, which could result in additional legislation or regulation applicable to the insurance industry, FGL, its competitors or the entities with which FGL does business. Legislative or regulatory requirements imposed by or promulgated in connection with the Dodd-Frank Act may impact FGL in many ways, including but not limited to: placing FGL at a competitive disadvantage relative to its competition or other financial services entities, changing the competitive landscape of the financial services sector and/or the insurance industry, making it more expensive for FGL to conduct its business, requiring the reallocation of significant company resources to government affairs, legal and compliance-related activities, or otherwise have a material adverse effect on the overall business climate as well as FGL s financial condition and results of operations.

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

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

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

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

FGL, through its insurance subsidiaries, cedes material amounts of insurance and transfers related assets and certain liabilities to other insurance companies through reinsurance. Specifically, a material amount of liabilities were transferred to Wilton Re pursuant to the Wilton Re Transaction (See Business Our Operating Subsidiaries FGL The Fidelity & Guaranty Acquisition Wilton Re Transaction in our 2012 Annual Report for further discussion). However, notwithstanding the transfer of related assets and certain liabilities, FGL remains liable with respect to ceded insurance should any reinsurer fail to meet the obligations assumed. Accordingly, FGL bears credit risk with respect to its reinsurers, including its reinsurance arrangements with Wilton Re. The failure, insolvency, inability or unwillingness to pay under the terms of reinsurance agreements with FGL could materially adversely affect FGL s business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Equity market volatility could negatively impact FGL s business.

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

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

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

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

The annuity and life insurance products that FGL markets generally provide the policyholder with certain federal income tax advantages. For example, federal income taxation on any increases in non-qualified annuity contract values (i.e., the inside build-up) is deferred until it is received by the policyholder. With other savings investments,

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such as certificates of deposit and taxable bonds, the increase in value is generally taxed each year as it is realized. Additionally, life insurance death benefits are generally exempt from income tax.

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

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

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

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

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

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

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

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

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

FGL is dependent on the performance of others.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to the Hardware Acquisition

Spectrum Brands may not realize the anticipated benefits of the Hardware Acquisition.

The Hardware Acquisition involves the integration of two companies that have previously operated independently. The integration of Spectrum Brands operations with those of HHI is expected to result in financial and operational benefits, including increased top line growth, margins, revenues and cost savings and be accretive to earnings per share, earnings before interest, taxes, depreciation and amortization and free cash flow before synergies. There can be no assurance, however, regarding when or the extent to which Spectrum Brands will be able to realize these increased top line growth, margins, revenues, cost savings or accretions to earnings per share, earnings before interest, taxes, depreciation and amortization or free cash flow or other benefits. Integration may also be difficult, unpredictable, and subject to delay because of possible company culture conflicts and different opinions on technical decisions and product roadmaps. Spectrum Brands must integrate or, in some cases, replace, numerous systems, including those involving management information, purchasing, accounting and finance, sales, billing, employee benefits, payroll and regulatory compliance, many of which are dissimilar. In some instances, Spectrum Brands and HHI have served the same customers, and some customers may decide that it is desirable to have additional or different suppliers. Difficulties associated with integration could have a material adverse effect on Spectrum Brands business.

HGI s operating results contributed by Spectrum Brands after the Hardware Acquisition, may materially differ from the pro forma information presented in this prospectus supplement.

HGI s operating results contributed by Spectrum Brands after the Hardware Acquisition may be materially different from those shown in the pro forma information, which represents only a combination of our historical results with those of HHI. The merger, financing, integration, restructuring and transaction costs related to the Hardware Acquisition could be higher or lower than currently estimated, depending on how difficult it will be to integrate Spectrum Brands business with that of HHI.

At the First Closing Spectrum Brands will assume certain potential liabilities relating to the HHI Business.

Following the First Closing, Spectrum Brands will have assumed certain potential liabilities relating to the HHI Business. To the extent Spectrum Brands has not identified such liabilities or to the extent the indemnifications obtained from Stanley Black & Decker are insufficient to cover known liabilities, these liabilities could have a material adverse effect on Spectrum Brands business.

Integrating Spectrum Brands business with that of HHI may divert Spectrum Brands management s attention away from operations.

Successful integration of Spectrum Brands and HHI s operations, products and personnel may place a significant burden on its management and other internal resources. The diversion of management s attention, and any difficulties encountered in the transition and integration process, could harm Spectrum Brands business, financial conditions and operating results.

Spectrum Brands will supply certain products and services to Stanley Black & Decker and its subsidiaries pursuant to the terms of certain supply agreements for a period of time after each of the First Closing and the Second Closing. Spectrum Brands provision of products and services under these agreements will require Spectrum Brands to dedicate resources of the HHI Business and the TLM Residential Business and may result in liabilities to Spectrum Brands.

Certain products and services currently used by Stanley Black & Decker are produced and provided using equipment of the HHI Business and the TLM Residential Business that Spectrum Brands will be acquiring or certain equipment belonging to Stanley Black & Decker and its subsidiaries that will continue to be located for a period of time after each of the First Closing and the Second Closing at facilities operated by the HHI Business and the TLM Residential

Business and maintained by us pursuant to certain specifications. At each of the First Closing and the Second Closing, Spectrum Brands and Stanley Black & Decker will enter into supply agreements (each, a Supply Agreement), whereby Spectrum Brands will provide Stanley Black & Decker and its subsidiaries with certain of these products and services for a period of time. This will require Spectrum Brands to dedicate resources of the HHI Business and the TLM Residential Business towards the provision of these products and services and may result in liabilities to it. These Supply Agreements are an accommodation to Stanley Black & Decker and its subsidiaries as part of the Hardware Acquisition, and the pricing of the products and services is on terms more favorable to Stanley Black & Decker and its subsidiaries than it would be in the ordinary course of business.

As a result of the Hardware Acquisition, Spectrum Brands may not be able to retain key personnel or recruit additional qualified personnel, which could materially affect its business and require it to incur substantial additional costs to recruit replacement personnel.

Spectrum Brands is highly dependent on the continuing efforts of its senior management team and other key personnel. As a result of the Hardware Acquisition, Spectrum Brands current and prospective employees could experience uncertainty about their future roles. This uncertainty may adversely affect Spectrum Brands ability to attract and retain key management, sales, marketing and technical personnel. Any failure to attract and retain key personnel could have a material adverse effect on Spectrum Brands business after consummation of the Hardware Acquisition. In addition, Spectrum Brands currently does not maintain key person insurance covering any member of its management team.

General customer uncertainty related to the Hardware Acquisition could harm Spectrum Brands.

Spectrum Brands customers may, in response to the consummation of the Hardware Acquisition, delay or defer purchasing decisions. If Spectrum Brands customers delay or defer purchasing decisions, its revenues could materially decline or any anticipated increases in revenue could be lower than expected.

Spectrum Brands only has the right to use certain Stanley Black & Decker trademarks, brand names and logos for a limited period of time. If Spectrum Brands fails to establish in a timely manner a new, independently recognized brand name with a strong reputation, its revenue and profitability could decline.

In connection with Spectrum Brands acquisition of HHI, it received a limited right to use certain Stanley Black & Decker trademarks, brand names and logos in marketing its products and services for only five years. Pursuant to a transitional trademark license agreement, Stanley Black & Decker granted Spectrum Brands the right to use the Stanley and Black & Decker marks and logos, and certain other marks and logos, for up to five years after the First Closing in connection with certain products and services. When Spectrum Brands right to use the Stanley Black & Decker trademarks, brand names and logos expires, it may not be able to maintain or enjoy comparable name recognition or status under its new brand. If Spectrum Brands is unable to successfully manage the transition of its business to its new brand, its reputation among its customers could be adversely affected, and its revenue and profitability could decline.

Spectrum Brands will rely on Stanley Black & Decker and its subsidiaries to provide it with certain key services for its business pursuant to the terms of certain transition services agreements for limited transition periods. If Stanley Black & Decker and its subsidiaries fail to perform their obligations under these agreements or if Spectrum Brands does not find equivalent replacement services, Spectrum Brands may be unable to provide these services or implement substitute arrangements on a timely and cost-effective basis on terms favorable to it, or at all.

Certain key services are currently provided to the HHI Business and the TLM Residential Business by Stanley Black & Decker and its subsidiaries, including services related to treasury, accounting, risk management, payroll, sourcing, sales and support, information technology, and employee benefit plans. At each of the First Closing and the Second Closing, Spectrum Brands and Stanley Black & Decker will enter into a Transition Services Agreement (each, a Transition Services Agreement), whereby Stanley Black & Decker and its subsidiaries will provide the HHI Business and the TLM Residential Business with certain of these key services for an initial transition period of generally six months, though the initial transition period of certain services is longer, and the provision of each service may be extended at an increased cost to Spectrum Brands. In some cases, such services will be provided on a more limited basis than the HHI Business and the TLM Residential Business had received previously. Spectrum Brands believes it is necessary for Stanley Black & Decker and its subsidiaries to provide these services to the HHI Business and the TLM Residential Business to facilitate the efficient operation of Spectrum Brands business as it goes through the transition and integration process. Once the transition periods specified in the Transition Services

Agreements have expired, or if Stanley Black & Decker and its subsidiaries fail to perform their obligations under the Transition Services Agreements, Spectrum Brands will be required to extend the provision of services under such agreements at an increased cost to it, to provide these services itself or to obtain substitute arrangements with third parties. After the applicable transition period, Spectrum Brands may be unable to provide these services internally because of financial or other constraints or be unable to implement substitute arrangements on a timely and cost-effective basis on terms that are favorable to it, or at all.

If Stanley Black & Decker is unable to acquire all the outstanding interests of TLM Taiwan, Spectrum Brands will not be able to acquire the TLM Residential Business.

Spectrum Brands acquisition of the TLM Residential Business will take place after the First Closing. Additionally, there are other conditions that must be satisfied in order for this acquisition to close, such as Stanley Black & Decker acquiring all of the outstanding interests of TLM Taiwan. There can be no assurances that these closing conditions will be met and that Spectrum Brands consummates the Second Closing.

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

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

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

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

Risks Related to EXCO/HGI Partnership

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

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

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

Fluctuations in oil and natural gas prices, which have been volatile at times, may adversely affect the revenues of the EXCO/HGI Partnership as well as its ability to secure an adequate borrowing capacity, repay indebtedness and obtain additional capital on attractive terms.

The future financial condition, access to capital, cash flow and results of operations of the EXCO/HGI Partnership will depend upon the prices it receives for its oil and natural gas. The EXCO/HGI Partnership will be particularly dependent on prices for natural gas because a large portion of the proved reserves attributable to the properties being contributed to the EXCO/HGI Partnership are natural gas. Historically, oil and natural gas prices have been volatile and are subject to fluctuations in response to changes in supply and demand, market uncertainty and a variety of additional factors that are beyond the control of the EXCO/HGI Partnership. Factors that affect the prices the EXCO/HGI Partnership will receive for its oil and natural gas include:

- supply and demand for oil and natural gas and expectations regarding supply and demand;
- the level of domestic production;
- the availability of imported oil and natural gas;
- political and economic conditions and events in foreign oil and natural gas producing nations, including embargoes, continued hostilities in the Middle East and other sustained military campaigns, and acts of terrorism or sabotage;
- the ability of members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls;
- the cost and availability of transportation and pipeline systems with adequate capacity;
- the cost and availability of other competitive fuels;
- fluctuating and seasonal demand for oil, natural gas and refined products;
- concerns about climate change or other conservation initiatives and the extent of governmental price controls and regulation of production;
- regional price differentials and quality differentials of oil and natural gas;
- the availability of refining capacity;

- technological advances affecting oil and natural gas production and consumption;
- weather conditions and natural disasters;
- foreign and domestic government relations; and
- overall economic conditions.

In the past, including during the last five years, prices of oil and natural gas have been extremely volatile, and we expect this volatility to continue. The revenues, cash flow and profitability of the EXCO/HGI Partnership and its ability to secure an adequate borrowing capacity, repay indebtedness and obtain additional capital on attractive terms will depend substantially upon oil and natural gas prices.

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 Partnership s actual oil and natural gas sales could have a material adverse effect on the results of operations and financial condition of the EXCO/HGI Partnership.

The reference or regional index prices that EXCO has historically used, and that the EXCO/HGI Partnership is expected to use, to price the EXCO/HGI Partnership s oil and natural gas sales sometimes reflect a discount to the

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relevant benchmark prices, such as NYMEX. The difference between the benchmark price and the price references in a sales contract is called a differential. We cannot accurately predict oil and natural gas differentials. Changes in differentials between the benchmark price for oil and natural gas and the reference or regional index price references in the EXCO/HGI Partnership s sales contracts could have a material adverse effect on the EXCO/HGI Partnership s results of operations, cash flows and financial condition.

There are risks associated with the EXCO/HGI Partnership s drilling activity that could impact the results of our operations.

Drilling involves numerous risks, including the risk that the EXCO/HGI Partnership will not encounter commercially productive oil or natural gas reservoirs. The EXCO/HGI Partnership is expected to incur significant expenditures to identify and acquire properties and to drill and complete wells. Additionally, seismic and other technology will not allow the EXCO/HGI Partnership to know conclusively prior to drilling a well that oil or natural gas is present or economically producible. The costs of drilling and completing wells are often uncertain, and drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including unexpected drilling conditions, pressure or irregularities in formations, equipment failures or accidents, weather conditions and shortages or delays in the delivery of equipment. EXCO has historically experienced, and the EXCO/HGI Partnership may in the future experience, some delays in contracting for drilling rigs, and obtaining fracture stimulation crews and materials, which result in increasing costs to drill wells. All of these risks could adversely affect the EXCO/HGI Partnership s results of operations, cash flows and financial condition.

Increased drilling in the shale formations may cause pipeline and gathering system capacity constraints that may limit the EXCO/HGI Partnership s ability to sell natural gas and/or receive market prices for its natural gas.

The Haynesville/Bossier shale wells being retained by EXCO Parent have generally reported very high initial production rates. If drilling in the Haynesville/Bossier shale continues to be successful, the amount of natural gas being produced in the area from these new wells, as well as natural gas produced from other existing wells, may exceed the capacity of the various gathering and intrastate or interstate transportation pipelines currently available. If this occurs, it will be necessary for new interstate and intrastate pipelines and gathering systems to be built.

Because of the current economic climate, certain planned pipeline projects for the Haynesville/Bossier shale areas may not occur because the prospective owners of these pipelines may be unable to secure the necessary financing. In addition, capital constraints could limit the EXCO/HGI Partnership s ability to build intrastate gathering systems necessary to transport its natural gas to interstate pipelines. In such event, this could result in wells being shut in awaiting a pipeline connection or capacity and/or natural gas being sold at much lower prices than those quoted on NYMEX or than we currently project, which would adversely affect the EXCO/HGI Partnership s results of operations.

The General Partner will not have any of its own employees, but instead will have employees supplied by EXCO Parent, either dedicated to the needs of the EXCO/HGI Partnership or shared with EXCO Parent to supply competent, knowledgeable and competitive employees, including members of management, for the success of the EXCO/HGI Partnership.

Pursuant to the terms of the joint venture transaction, EXCO will supply to the General Partner of the EXCO/HGI Partnership certain employees that will be dedicated to the needs of the EXCO/HGI Partnership and will also share certain employees with the EXCO/HGI Partnership to fill other needs. The General Partner, therefore, will not employ any of its own personnel. While HGI Energy will participate in the decision-making of the EXCO/HGI Partnership as members of the board of directors of the General Partner and have certain rights regarding dedicated and shared employees who perform services for the EXCO/HGI Partnership, it will rely to an extent on the decisions of EXCO Parent s employees, including those of management, for the day-to-day operations of the EXCO/HGI Partnership. EXCO Parent s failure to provide competent and competitive employees, including members of management, could adversely affect the business, cash flows, financial performance and results of operations of the EXCO/HGI Partnership.

In addition, the EXCO/HGI Partnership will engage EXCO Parent as operator of substantially all of the properties it owns. In the event that EXCO Parent terminates its operating agreements with the EXCO/HGI Partnership, or otherwise resigns as operator, either HGI Energy or the EXCO/HGI Partnership may incur additional expense engaging and transitioning employees for the EXCO/HGI Partnership to replace those provided by EXCO, which additional expense could have an adverse affect the business, cash flows or financial performance of the EXCO/HGI Partnership.

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Our failure to resolve any material disagreements with EXCO Parent relating to the EXCO/HGI Partnership could have a material adverse effect on the success of the operations, financial condition and results of operations of the EXCO/HGI Partnership.

Each of EXCO Parent and HGI Energy will have an initial 50% interest in the General Partner of the EXCO/HGI Partnership. In addition, EXCO Parent will serve as operator of the oil and gas properties being contributed to the EXCO/HGI Partnership. We will depend on EXCO Parent in many ways for the success of the EXCO/HGI Partnership, such as for performance of its duties as a prudent operator or to make agreed payments of substantial carried costs pertaining to the EXCO/HGI Partnership and its share of capital and other costs of the EXCO/HGI Partnership. EXCO Parent s performance of these obligations or the ability of EXCO Parent to meet its obligations under these arrangements is outside our control. If EXCO Parent does not meet or satisfy its obligations under the operating and other service agreements with the EXCO/HGI Partnership, the performance and success of the EXCO/HGI Partnership, and its value to us, may be adversely affected. If EXCO Parent, or any future joint venture partner (if any), is unable to meet its obligations, the EXCO/HGI Partnership may be forced to undertake the obligations itself and/or incur additional expenses and delays in order to have some other party perform such obligations. In such cases we may also be required to enforce our rights, which may cause disputes among our joint venture partner and us. If any of these events occur, they may adversely impact us, the EXCO/HGI Partnership, and its or our financial performance and results of operations.

As with any joint venture transaction, the EXCO/HGI Partnership arrangement may involve risks not otherwise present when exploring and developing properties independently, including, for example:

- EXCO Parent may share certain approval rights over major decisions, which may result in a failure to mutually agree to take action, delays and related additional expenses, and decisions and actions that are taken to obtain mutual consent that are sub-optimal for the EXCO/HGI Partnership or HGI Energy;

- disputes between us and EXCO Parent may result in litigation or arbitration that would increase expenses, delay or terminate projects and prevent the officers and directors of the General Partner of the EXCO/HGI Partnership from focusing their time and effort on its business;

- the possibility that EXCO Parent might become insolvent or bankrupt, which may result in its removal from the joint venture or failure to perform and may result in HGI Energy having to pay EXCO Parent s share of joint venture liabilities in order to operate the EXCO/HGI Partnership;

- the possibility that the EXCO/HGI Partnership may incur liabilities as a result of an action taken by EXCO Parent, which would reduce the value of our interests in the EXCO/HGI Partnership;

- that under certain circumstances, neither EXCO Parent nor us has the power to control the EXCO/HGI Partnership, and an impasse could be reached which might have a negative influence on our investment in the joint venture; and

- EXCO Parent may decide to sell its interest in the EXCO/HGI Partnership or resign as operator of the EXCO/HGI Partnership and we may be unable to, or be unable to timely, replace EXCO Parent or raise the necessary financing to purchase EXCO s interest.

The failure to resolve disagreements with EXCO Parent could adversely affect the business of the EXCO/HGI Partnership, which would in turn negatively affect the EXCO/HGI Partnership s results of operations, cash flows and financial condition. See Risk Factors Risks Related to HGI Our participation in any future joint investment could be adversely affected by our lack of sole decision-making authority, our reliance on a partner s financial condition and disputes between us and our partners.

In connection with the closing of the EXCO/HGI Partnership, the EXCO/HGI Partnership will incur a substantial amount of indebtedness, which may adversely affect its cash flow and ability to operate its business, remain in compliance with debt covenants and make payments on its debt and distributions to us.

Pursuant to the EXCO/HGI Purchase Agreement, at the closing, the EXCO/HGI Partnership is expected to enter into a credit agreement and incur $225.0 million of indebtedness (as adjusted according to the EXCO/HGI Purchase Agreement). To service its indebtedness, the EXCO/HGI Partnership will be required to generate a significant amount of cash. The EXCO/HGI Partnership s ability to generate cash depends on many factors beyond its control, and any failure to meet its debt obligations could harm its business, financial condition and results of operations. In particular, the EXCO/HGI Partnership s reserves, borrowing base, production and cash flows can be negatively impacted by declines in natural gas prices. If the EXCO/HGI Partnership s operating cash flow and other capital resources are insufficient to fund its debt obligations, it may be forced to sell assets, seek additional equity or debt capital or restructure its debt. These remedies may not be available on commercially reasonable terms, or at all. In addition, such credit agreement may contain covenants imposing operating and financial restrictions on the EXCO/HGI Partnership s business and require the satisfaction of certain financial tests.

The EXCO/HGI Partnership may be unable to acquire or develop additional reserves, which would reduce its revenues and access to capital.

The long-term success of the EXCO/HGI Partnership will depend upon its ability to find, develop or acquire additional oil and natural gas reserves that are profitable to produce. Pursuant to the transaction agreements, upon consummation of the transaction, the EXCO/HGI Partnership will be granted rights of first refusal to certain oil and gas acquisitions or dispositions planned by either us or EXCO Parent. However, such rights terminate after a change of control of either party, if EXCO no longer serves as operator of the EXCO/HGI Partnership assets, or if either party disposes of its interest in the EXCO/HGI Partnership. Additional factors that may hinder the EXCO/HGI Partnership s ability to acquire or develop additional oil and natural gas reserves include competition, access to capital, prevailing oil and natural gas prices and the number and attractiveness of properties for sale. If the EXCO/HGI Partnership is unable to conduct successful development activities or acquire properties containing proved reserves, its total proved reserves will generally decline as a result of production. Also, its production will generally decline. In addition, if the EXCO/HGI Partnership s reserves and production decline, then the amount it will be able to borrow under its credit agreement will also decline. The EXCO/HGI Partnership may be unable to locate additional reserves, drill economically productive wells or acquire properties containing proved reserves.

Development and exploration drilling and strategic acquisitions are the main methods of replacing reserves. However, development and exploration drilling operations may not result in any increases in reserves for various reasons. The EXCO/HGI Partnership s future oil and natural gas production depends on its success in finding or acquiring additional reserves. If it fails to replace reserves through drilling or acquisitions, its level of production and cash flows will be adversely affected.

The EXCO/HGI Partnership may not identify all risks associated with the acquisition of oil and natural gas properties, and any indemnifications it receives from sellers may be insufficient to protect it from such risks, which may result in unexpected liabilities and costs to it.

It is expected that the EXCO/HGI Partnership will acquire additional oil and natural gas properties in the pursuit of its business strategy. Any future acquisitions will require an assessment of recoverable reserves, title, future oil and natural gas prices, operating costs, potential environmental risks and liabilities, potential tax and Employee Retirement Income Security Act, or ERISA, liabilities, and other liabilities and other similar factors. As is common in the industry and depending on the size of the acquisition, it may not be feasible for the EXCO/HGI Partnership to review in detail every individual property involved in an acquisition. For example, for larger acquisitions, the review efforts of the EXCO/HGI Partnership may be focused on the higher-valued properties. Even a detailed review of properties and records may not reveal material existing or potential issues or provide the EXCO/HGI Partnership with sufficient information to assess fully their deficiencies and capabilities. Such issues, including deficiencies in the mechanical integrity of equipment or environmental conditions, may require significant remedial expenditures and could result in material liabilities and costs that negatively impact the EXCO/HGI Partnership s results of operations, cash flow and financial condition.

Even if we or the EXCO/HGI Partnership are able to identify such issues with an acquisition, the seller may be unwilling or unable to provide effective contractual protection or indemnity against all or part of these problems. Even if a seller agrees to provide indemnity, the indemnity may not be fully enforceable and may be limited by floors and caps on such indemnity.

The EXCO/HGI Partnership may not correctly evaluate reserve data or the exploitation potential of properties as it engages in its acquisition, exploration, development and exploitation activities.

The future success of the EXCO/HGI Partnership will depend on the success of its acquisition, exploration, development and exploitation activities. The EXCO/HGI Partnership s decisions to purchase, explore, develop or otherwise exploit properties or prospects will depend in part on the evaluation of data obtained from production reports and engineering studies, geophysical and geological analyses and seismic and other information, the results of which are often inconclusive and subject to various interpretations, which could significantly reduce the

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EXCO/HGI Partnership s ability to generate cash needed to service its debt, to fund its capital program and other working capital requirements and to pay distributions to us.

The EXCO/HGI Partnership may encounter obstacles to marketing its oil and natural gas, which could adversely impact its revenues.

The EXCO/HGI Partnership is expected to enter into an agreement pursuant to which EXCO will market and sell the EXCO/HGI Partnership s oil and natural gas. The effective marketing and sale of the EXCO/HGI Partnership s oil and natural gas production will depend upon the availability and capacity of natural gas gathering systems, pipelines and other transportation facilities. The EXCO/HGI Partnership will be primarily dependent upon third parties, including an affiliate of EXCO Parent, to transport its products. Transportation space on the gathering systems and pipelines to be used for the EXCO/HGI Partnership s oil and natural gas is occasionally limited or unavailable due to repairs, outages caused by accidents or other events, or improvements t