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

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from to

Commission file number: 1-4219

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

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

(212) 906-8555
(Registrant’s telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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

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PART I: FINANCIAL INFORMATION
Item 1. Financial Statements
HARBINGER GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

Dividends paid on preferred stock	(25.0)	(23.4)
Share based award tax withholding payments	(22.4)	(3.9)
Other financing activities, net	—	(1.0)
Net change in cash due to financing activities	1,884.0	259.3
Effect of exchange rate changes on cash and cash equivalents	(5.0)	(1.4)
Net (decrease) increase in cash and cash equivalents	(227.0)	695.4
Cash and cash equivalents at beginning of period	1,470.7	1,137.4
Cash and cash equivalents at end of period	$ 1,243.7	$ 1,832.8

See accompanying notes to condensed consolidated financial statements.

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HARBINGER GROUP INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Amounts in millions, except share and per share figures)

(1) Description of Business

Description of the Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Principles of Consolidation
The Condensed Consolidated Financial Statements include the accounts of the Company, its majority-owned subsidiaries, those variable interest entities ("VIEs") where the Company is the primary beneficiary, and its proportionate share of the gross net assets of equity method investments in extractive industries ("Proportionate consolidation"). Intercompany accounts and transactions have been eliminated. Results of operations of acquired companies are included from the dates of acquisition and for VIEs, from the dates that the Company became the primary beneficiary.
The Company has elected to account for its investments in extractive industries that it does not control, but over which it can exert significant influence (specifically, the EXCO/HGI JV), by using the proportionate consolidation method allowed for equity-method investments in extractive industries, under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 932, Extractive Industries. Under this method, the Company consolidates its proportionate share of the assets and liabilities of the equity method investment, using a gross presentation.
A variable interest entity is an entity that lacks equity investors or whose equity investors do not have a controlling financial interest in the entity through their equity investments. The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and consolidates the VIE. A corporation is deemed to have a controlling financial interest and is the primary beneficiary of a VIE if it has both the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and an obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.
The Company, through its subsidiary, Salus, primarily uses VIEs for its securitization activities, in which Salus transfers whole loans into a trust or other vehicle such that the assets are legally isolated from the creditors of Salus. Assets held in a trust can only be used to settle obligations of the trust. The creditors of these trusts typically have no recourse to Salus except in accordance with the obligations under standard representations and warranties. When Salus is the servicer of whole loans held in a securitization trust, Salus has the power to direct the most significant activities of the trust. Salus consolidates a whole-loan securitization trust if it has the power to direct the most significant activities and also holds securities issued by the trust or has other contractual arrangements, other than standard representations and warranties, that could potentially be significant to the trust.

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Oil and natural gas properties

Full Cost Method

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

Capitalization of Interest

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

Depletion

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

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

Ceiling Test Exemption

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

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

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

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

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

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

Gas gathering assets

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

Deferred abandonment and asset retirement obligations

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

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

Revenue recognition and gas imbalances

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

Gathering and transportation

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

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

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

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

Change in Accounting Method
During the quarter ended June 30, 2013, the Company changed its method of presenting tax withholdings for share-based payment awards paid to a taxing authority on behalf of an employee from an operating activity to a financing activity within its statements of cash flows. The Company believes that the newly adopted accounting principle is preferable in the circumstances because the predominant characteristic of such transaction is a financing activity.
As a result of the change in accounting method, the Company had the following reclassifications for the nine months ended June 30, 2013 and July 1, 2012, respectively:

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

Recent Accounting Pronouncements
Presentation of Comprehensive Income
In June 2011, the FASB issued Accounting Standards Update 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income," which amends current comprehensive income guidance. This accounting update eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, comprehensive income must be reported in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. The guidance requiring disclosure of the income statement location where gains and losses reclassified out of comprehensive income are included was deferred in December 2011. In November 2012, the FASB clarified its position on the reclassification disclosures, allowing disclosure of reclassification adjustments on the face of the comprehensive income statement or in the notes to the financial statements. The accounting guidance requiring a comprehensive income statement is now effective for the Company. The Company has implemented all required disclosures.
Offsetting Assets and Liabilities
In December 2011, the FASB issued amended disclosure requirements for offsetting financial assets and financial liabilities to allow investors to better compare financial statements prepared under US GAAP with financial statements prepared under International Financial Reporting Standards. The new standards are effective for us beginning in the first quarter of our fiscal year ending September 30, 2014. The Company is currently evaluating the impact of this new accounting guidance on the disclosures included in its consolidated financial statements.

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(3) Acquisitions

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

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

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

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

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

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

Preliminary Valuation of Assets and Liabilities

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

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

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

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

Preliminary Pre-Acquisition Contingencies Assumed

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

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Preliminary Valuation Adjustments

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

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

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

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

Shaser

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

The following table summarizes the preliminary consideration paid for Shaser:

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

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

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

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

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Preliminary Valuation of Assets and Liabilities

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

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

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

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

Preliminary Pre-Acquisition Contingencies Assumed

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

Preliminary Valuation Adjustments

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

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

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

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

EXCO/HGI JV

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

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

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

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

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

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

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

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

FGL Acquisition Update

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

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Contingent Purchase Price Reduction

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

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

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

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Supplemental Pro Forma Information

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

	Three months ended		Nine months ended	
	June 30, 2013	July 1, 2012	June 30, 2013	July 1, 2012
Revenues:				
Reported revenues	$1,410.6	$1,012.2	$4,044.8	$3,283.9
HHI adjustment				