HARBINGER GROUP INC.
Form S-4
July 28, 2011

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As filed with the Securities and Exchange Commission on July 28, 2011

Registration No. 333-

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

Form S-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

HARBINGER GROUP INC.
(Exact name of Registrant as specified in its charter)

Delaware	**3690**	**74-1339132**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(IRS Employer Identification No.)*

450 Park Avenue, 27th Floor
New York, NY 10022
(212) 906-8555
(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Francis T. McCarron
Executive Vice President and Chief Financial Officer
450 Park Avenue, 27th Floor
New York, NY 10022
(212) 906-8555
(Name, address, including zip code, and telephone number, including area code, of agent for service)

With a copy to:

Jeffrey D. Marell, Esq.
Raphael M. Russo, Esq.
Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, New York 10019
(212) 373-3000

Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement becomes effective.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) o
Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price per Share	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(2)
10.625% Senior Secured Notes Due 2015	$150,000,000	100%	$150,000,000	$17,415

(1) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(f) of the Securities Act of 1933.

(2) The registration fee has been calculated pursuant to Rule 457(f) under the Securities Act of 1933.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting

pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED July 27, 2011

PROSPECTUS

HARBINGER GROUP INC.
Exchange Offer for $150,000,000
10.625% Senior Secured Notes due 2015

The Notes

We are offering to issue $150,000,000 of 10.625% Senior Secured Notes due 2015, whose issuance is registered under the Securities Act of 1933, as amended, which we refer to as the exchange notes, in exchange for a like aggregate principal amount of 10.625% Senior Secured Notes due 2015, which were issued on June 28, 2011 and which we refer to as the initial notes. The exchange notes will be issued under the existing indenture governing the initial notes dated November 15, 2010, as amended by the supplemental indenture related thereto, dated June 22, 2011 and the second supplemental indenture related thereto, dated June 28, 2011. In addition to the $150,000,000 aggregate principal amount of Senior Secured Notes outstanding, there are $350,000,000 aggregate principal amount of 10.625% Senior Secured Notes due 2015 outstanding under the indenture, which we refer to as the existing notes.

The exchange notes and the existing notes will mature on November 15, 2015. We will pay interest on the exchange notes and the existing notes on each May 15 and November 15, beginning on November 15, 2011.

The exchange notes and the existing notes will be secured by a first priority lien on substantially all of our assets, including, without limitation, all equity interests of our direct subsidiaries owned by us and related assets, all cash and investment securities owned by us, and all general intangibles owned by us. The exchange notes and the existing notes will be our senior secured obligations and will rank senior in right of payment to our future debt and other obligations that expressly provide for their subordination to the exchange notes and the existing notes, rank equally in right of payment to all of our existing and future unsubordinated debt, be effectively senior to all of our unsecured debt to the extent of the value of the collateral and be effectively subordinated to all liabilities of our subsidiaries, none of whom will initially guarantee the exchange notes.

Terms of the Exchange Offer

It will expire at 5:00 p.m., New York City time, on , 2011, unless we extend it.

If all the conditions to the exchange offer are satisfied, we will exchange all of the initial notes that are validly tendered and not withdrawn for exchange notes.

You may withdraw your tender of initial notes at any time before the expiration of the exchange offer.

The exchange notes that we will issue you in exchange for your initial notes will be substantially identical to your initial notes except that, unlike your initial notes, the exchange notes will have no transfer restrictions or registration rights.

The exchange notes will be issued as part of the same class as the existing notes under the indenture, but their trading market is expected to be limited.

Before participating in the exchange offer, please refer to the section in this prospectus entitled Risk Factors commencing on page 13.

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

Broker-dealers who receive exchange notes pursuant to the exchange offer must acknowledge that they will deliver a prospectus in connection with any resale of such exchange notes. Broker-dealers who acquired the initial notes as a result of market-making or other trading activities may use the prospectus for the exchange offer, as supplemented or amended, in connection with resales of the exchange notes.

The date of this prospectus is , 2011.

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PROSPECTUS SUMMARY

The following summary highlights basic information about us and the exchange offer. 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, including the sections entitled Risk Factors and the historical and pro forma financial statements and the accompanying notes to those statements of Harbinger Group Inc., Spectrum Brands Holdings, Inc. and Fidelity & Guarantee Life Holdings, Inc. Certain statements in this summary are forward-looking statements. See Special Note Regarding Forward-Looking Statements.

Unless otherwise indicated in this prospectus or the context requires otherwise, in this prospectus, references to the Company, HGI, we, us or our refers to Harbinger Group Inc. and, where applicable, its consolidated subsidiari Harbinger Capital refers to Harbinger Capital Partners LLC; Harbinger Parties refers, collectively, to Harbinger Capital Partners Master Fund I, Ltd., Harbinger Capital Partners Special Situations Fund, L.P. and Global Opportunities Breakaway Ltd., Russell Hobbs refers to Russell Hobbs, Inc. and, where applicable, its consolidated subsidiaries; Spectrum Brands Holdings refers to Spectrum Brands Holdings, Inc. and, where applicable, its consolidated subsidiaries; Spectrum Brands refers to Spectrum Brands, Inc. and, where applicable, its consolidated subsidiaries; and F&G Holdings refers to Fidelity & Guaranty Life Holdings, Inc. (formerly, Old Mutual U.S. Life Holdings, Inc.) and, where applicable, its consolidated subsidiaries.

References to the indenture or the existing indenture refer to the indenture dated as of November 15, 2010, between HGI and Wells Fargo Bank, National Association, as trustee, as amended by the supplemental indenture related thereto, dated June 22, 2011 and the second supplemental indenture related thereto, dated June 28, 2011.

The term initial notes refers to the 10.625% Senior Secured Notes due 2015 that were issued on June 28, 2011, in a private offering. The term exchange notes refers to the 10.625% Senior Secured Notes due 2015 offered with this prospectus. The term existing notes refers to the $350 million principal amount of 10.625% Senior Secured Notes due 2015 that were issued under the indenture prior to the offering of the initial notes. Unless the context otherwise requires, the term notes refers to the existing notes, the initial notes and the exchange notes, collectively, all of which constitute a single class of notes under the indenture.

In this prospectus, on a pro forma basis, unless otherwise stated, means the applicable information is presented on a pro forma basis, giving effect to (i) the full-period effect of the Spectrum Brands Acquisition (as defined below), including the related adjustments referred to in the introduction to the section entitled Unaudited Pro Forma Condensed Combined Financial Statements, (ii) the Fidelity & Guaranty Acquisition (as defined below), (iii) the Preferred Stock Issuance (as defined below) and (iv) the issuance of the existing notes and the use of proceeds from such issuance. See The Spectrum Brands Acquisition, The Fidelity & Guaranty Acquisition, The Preferred Stock Issuance and Unaudited Pro Forma Condensed Combined Financial Statements included elsewhere in this prospectus.

Our Company

We are a holding company that is majority owned by the Harbinger Parties. 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. As of April 3, 2011, after giving effect to the issuance of the initial notes, the payment of periodic interest on the existing notes that was due on May 15, 2011, the Fidelity & Guaranty Acquisition and the Preferred Stock Issuance, but excluding cash, cash equivalents and short-term investments held by Harbinger F&G or Spectrum Brands Holdings, we would have had approximately $500 million in cash, cash equivalents and short-term investments, which includes $300 million that was subsequently transferred to our wholly-owned subsidiary, HGI Funding, LLC. Our common stock trades on the New York Stock Exchange (NYSE) under the symbol HRG. Our principal executive offices are located at 450 Park Avenue, 27th Floor, New York, New York 10022.

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We intend to make investments in companies that we consider to be undervalued or fairly valued with attractive assets or businesses. We intend to seek long-term investments that are able to generate high returns and significant cash flow to maximize long-term value for our stockholders. We are focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries. We view the Spectrum Brands Acquisition and the Fidelity & Guaranty Acquisition as the first steps in the implementation of that strategy. We have identified the following six sectors in which we intend to pursue investment opportunities: consumer products, insurance and financial products, telecommunications, agriculture, power generation and water and natural resources. 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.

In pursuing our strategy, we utilize the investment expertise and industry knowledge of Harbinger Capital, a multi-billion dollar private investment firm based in New York, and an affiliate of the Harbinger Parties. We believe that the team at Harbinger Capital has a track record of making successful investments across various industries. We believe that our affiliation with Harbinger Capital will enhance our ability to identify and evaluate potential acquisition opportunities appropriate for a permanent capital vehicle. Our corporate structure provides significant advantages compared to the traditional hedge-fund structure for long-term holdings as our sources of capital are longer term in nature and thus will more closely match our principal investment strategy. In addition, our corporate structure provides additional options for funding acquisitions, including the ability to use our common stock as a form of consideration.

Philip Falcone, who serves as Chairman of our Board of Directors (the Board) and Chief Executive Officer, has been the Chief Investment Officer of the Harbinger Capital affiliated funds since 2001. Mr. Falcone has over two decades of experience in leveraged finance, distressed debt and special situations. In addition to Mr. Falcone, Harbinger Capital employs a wide variety of professionals with expertise across various industries, including our targeted sectors.

Recent Developments

Existing Notes Offering

On November 15, 2010, we completed the offering of the existing notes. The net proceeds of that offering were held in a segregated escrow account until we completed the Spectrum Brands Acquisition, which is described further below. We used the net proceeds from the offering of the existing notes, together with other available funds, to pay the purchase price of the Fidelity & Guaranty Acquisition, which is described further below.

Acquisition of Controlling Interest in Spectrum Brands Holdings

On January 7, 2011, we completed the transactions contemplated by the Contribution and Exchange Agreement, dated as of September 10, 2010 and amended on November 5, 2010 (as amended, the Exchange Agreement), by and between us and the Harbinger Parties, pursuant to which we issued approximately 119.9 million shares of our common stock to the Harbinger Parties in exchange for approximately 27.8 million shares of Spectrum Brands Holdings common stock (the Spectrum Brands Acquisition). See The Spectrum Brands Acquisition for further information. As a result of the Spectrum Brands Acquisition, we own a controlling interest in Spectrum Brands Holdings, with a current market value of approximately $807 million (as of July 13, 2011) and the Harbinger Parties own approximately 93.3% of our issued and outstanding common stock (prior to giving effect to the conversion of the shares of our Series A Participating Convertible Preferred Stock (the Preferred Stock) that were issued in the Preferred Stock Issuance).

Acquisition of Harbinger F&G

On March 7, 2011, we entered into a Transfer Agreement (the Transfer Agreement) with Harbinger Capital Partners Master Fund I, Ltd. (the Master Fund). Pursuant to the Transfer Agreement, on March 9, 2011, (i) we acquired from the Master Fund a 100% membership interest in Harbinger F&G, LLC (formerly, Harbinger OM, LLC, Harbinger F&G), and (ii) the Master Fund transferred to Harbinger F&G the sole

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issued and outstanding Ordinary Share of FS Holdco Ltd. (FS Holdco). In consideration for the interests in Harbinger F&G and FS Holdco, we agreed to reimburse the Master Fund for certain expenses incurred by the Master Fund in connection with the Fidelity & Guaranty Acquisition (up to a maximum of $13.3 million) and to submit certain expenses of the Master Fund for reimbursement by OM Group (UK) Limited (OM Group) under the F&G Stock Purchase Agreement (as defined below). Following the consummation of the foregoing acquisitions, Harbinger F&G became our direct wholly-owned subsidiary, FS Holdco became the direct wholly-owned subsidiary of Harbinger F&G and Front Street Re, Ltd. (Front Street) became the indirectly wholly-owned subsidiary of Harbinger F&G.

On April 6, 2011, pursuant to the First Amended and Restated Stock Purchase Agreement, dated as of February 17, 2011 (the F&G Stock Purchase Agreement), between Harbinger F&G and OM Group, Harbinger F&G acquired from OM Group all of the outstanding shares of capital stock of F&G Holdings and certain intercompany loan agreements between OM Group, as lender, and F&G Holdings, as borrower, in consideration for $350 million, which amount could be reduced by up to $50 million post-closing if certain regulatory approvals are not received (the Fidelity & Guaranty Acquisition). Fidelity & Guaranty Life Insurance Company (formerly, OM Financial Life Insurance Company, FGL Insurance) and Fidelity & Guaranty Life Insurance Company of New York (formerly, OM Financial Life Insurance Company of New York, FGL NY Insurance) are F&G Holdings principal insurance companies, and are wholly-owned subsidiaries of F&G Holdings. See Business F&G Holdings.

Preferred Stock Issuance

On May 12, 2011, we entered into a Securities Purchase Agreement (Preferred Stock Purchase Agreement) with CF Turul LLC, an affiliate of Fortress Investment Group LLC (the Fortress Purchaser), Providence TMT Debt Opportunity Fund II, L.P., PECM Strategic Funding L.P., and Wilton Re Holdings Limited (together with the Fortress Purchaser, the Preferred Stock Purchasers) pursuant to which we sold to the Preferred Stock Purchasers an aggregate of 280,000 shares of Preferred Stock at a purchase price of $1,000 per share, resulting in aggregate gross proceeds to us of $280 million (the Preferred Stock Issuance).

Spectrum Brands Holdings

Spectrum Brands Holdings is a global branded consumer products company with leading market positions in seven major product categories: consumer batteries, pet supplies, home and garden control, electric shaving and grooming, electric personal care, portable lighting products and small appliances. Spectrum Brands Holdings is a leading worldwide marketer of alkaline, zinc carbon, hearing aid and rechargeable batteries, battery-powered lighting products, electric shavers and accessories, grooming products and hair care appliances, aquariums and aquatic health supplies, specialty pet supplies, insecticides, repellants and herbicides.

Spectrum Brands Holdings manages its businesses in three vertically integrated, product-focused reporting segments:

- Global Batteries & Appliances, which consists of its worldwide battery, electric shaving and grooming, electric personal care, portable lighting business and small appliances primarily in the kitchen and home product categories;
- Global Pet Supplies, which consists of its worldwide pet supplies business; and
- Home and Garden Business, which consists of its home and garden and insect control business.

Spectrum Brands Holdings sells its products in approximately 130 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers (OEMs) and enjoys strong name recognition in its markets under the Rayovac, VARTA and

Remington brands, each of which has been in existence for more than 80 years, and under the Tetra, 8-in-l, Spectracide, Cutter, Black & Decker, George Foreman, Russell Hobbs, Farberware and various other brands.

Spectrum Brands Holdings strategy is to provide quality and value to retailers and consumers worldwide. Most of its 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 Holdings goal is to provide the highest returns to its customers and retailers, and to offer superior merchandising and category management. Its promotional spending focus is on winning at the point of sale, rather than incurring significant advertising expenses. Spectrum Brands Holdings operates in several business categories in which it believes there are high barriers to entry. Spectrum Brands Holdings strives to achieve a low cost structure with a global shared services administrative structure, helping it to maintain attractive margins. This operating model, which Spectrum Brands Holdings refers to as the Spectrum value model, is what Spectrum Brands Holdings believes will drive returns for investors and customers.

Harbinger F&G

Harbinger F&G is the holding company for our recently acquired annuity and life insurance businesses and our proposed reinsurance business. F&G Holdings, through its insurance subsidiaries, is a provider of annuity and life insurance products in the U.S., with approximately 790,000 policy holders in the U.S. and a distribution network of approximately 300 independent marketing organizations (IMOs) representing approximately 25,000 agents nationwide as of March 31, 2011. At April 3, 2011, the pro forma carrying value of F&G Holdings investment portfolio was approximately $17.5 billion.

Front Street, an indirect wholly owned subsidiary of Harbinger F&G, is a recently formed Bermuda-based reinsurer, which has not engaged in any significant business to date. As contemplated by the terms of the F&G Stock Purchase Agreement, on May 19, 2011, a special committee of our Board (the Special Committee), comprised of independent directors under the rules of the NYSE, unanimously recommended to the Board for approval, (i) a reinsurance agreement (the Reinsurance Agreement) to be entered into by Front Street and FGL Insurance, pursuant to which Front Street would reinsure up to $3 billion of insurance obligations under annuity contracts of FGL and (ii) an investment management agreement (the Investment Management Agreement) to be entered into by Front Street and Harbinger Capital Partners II LP (HCP), an affiliate of the Harbinger Parties, pursuant to which HCP would be appointed as the investment manager of up to $1 billion of assets securing Front Street s reinsurance obligations under the Reinsurance Agreement, which assets will be deposited in a reinsurance trust account for the benefit of FGL Insurance pursuant to a trust agreement (the Trust Agreement). On May 19, 2011, our Board approved the Reinsurance Agreement, the Investment Management Agreement and the Trust Agreement (collectively, such agreements and the transactions contemplated thereby, the Front Street Reinsurance Transaction).

The Reinsurance Agreement and the Trust Agreement and the transactions contemplated thereby are subject to, and may not be entered into or consummated without, the approval of the Maryland Insurance Administration. The F&G Stock Purchase Agreement provides for up to a $50 million post-closing reduction in purchase price for the Fidelity & Guaranty Acquisition if, among other things, the Reinsurance Agreement, the Trust Agreement and the transactions contemplated thereby are not approved by the Maryland Insurance Administration or are approved subject to certain restrictions or conditions, including if HCP is not permitted to be appointed as the investment manager for $1 billion of assets securing Front Street s reinsurance obligations under the Reinsurance Agreement.

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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.

(2) We formed HGI Funding, LLC in 2011 as a vehicle for managing a portion of our excess available cash while we search for acquisition opportunities.

Corporate Information

We are a Delaware corporation and the address of our principal executive office is 450 Park Avenue, 27th Floor, New York, New York 10022. Our telephone number is (212) 906-8555. Our website address is www.harbingergroupinc.com. Information contained on our website is not part of this prospectus.

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Summary of the Exchange Offer

We are offering to issue $150,000,000 aggregate principal amount of our exchange notes in exchange for a like aggregate principal amount of our initial notes. In order to exchange your initial notes, you must properly tender them, and we must accept your tender. We will exchange all outstanding initial notes that are validly tendered and not validly withdrawn.

Exchange Offer	We will issue our exchange notes in exchange for a like aggregate principal amount of our initial notes.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on , 2011 (the expiration date), unless we decide to extend it.
Conditions to the Exchange Offer	We will complete the exchange offer only if: there is no change in the laws and regulations which would impair our ability to proceed with the exchange offer, there is no change in the current interpretation of the staff of the Securities and Exchange Commission (the SEC) which permits resales of the exchange notes, there is no stop order issued by the SEC or any state securities authority suspending the effectiveness of the registration statement which includes this prospectus or the qualification of the indenture for the exchange notes under the Trust Indenture Act of 1939 and there are no proceedings initiated or, to our knowledge, threatened for that purpose, there is no action or proceeding instituted or threatened in any court or before any governmental agency or body that would reasonably be expected to prohibit, prevent or otherwise impair our ability to proceed with the exchange offer, and we obtain all the governmental approvals that we in our sole discretion deem necessary to complete the exchange offer. Please refer to the section in this prospectus entitled The Exchange Offer Conditions to the Exchange Offer.
Procedures for Tendering Initial Notes	To participate in the exchange offer, you must complete, sign and date the letter of transmittal or its facsimile and transmit it, together with your initial notes to be exchanged and all other documents required by the letter of transmittal, to Wells Fargo Bank, National Association, as exchange agent (the exchange agent), at its address indicated under The Exchange Offer Exchange Agent. In the alternative, you can tender your initial notes by book-entry delivery following the procedures described in this prospectus. For more information on tendering your notes, please refer to the section in this prospectus entitled The Exchange Offer Procedures for Tendering Initial Notes.

Special Procedures for Beneficial Owners	If you are a beneficial owner of initial notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your initial notes in the exchange offer, you should contact the registered holder promptly and instruct that person to tender on your behalf.

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Guaranteed Delivery Procedures	If you wish to tender your initial notes and you cannot get the required documents to the exchange agent on time, you may tender your notes by using the guaranteed delivery procedures described under the section of this prospectus entitled The Exchange Offer Procedures for Tendering Initial Notes Guaranteed Delivery Procedure.
Withdrawal Rights	You may withdraw the tender of your initial notes at any time before 5:00 p.m., New York City time, on the expiration date of the exchange offer. To withdraw, you must send a written or facsimile transmission notice of withdrawal to the exchange agent at its address indicated under The Exchange Offer Exchange Agent before 5:00 p.m., New York City time, on the expiration date of the exchange offer.
Acceptance of Initial Notes and Delivery of Exchange Notes	If all the conditions to the completion of the exchange offer are satisfied, we will accept any and all initial notes that are properly tendered in the exchange offer on or before 5:00 p.m., New York City time, on the expiration date. We will return any initial note that we do not accept for exchange to you without expense promptly after the expiration date. We will deliver the exchange notes to you promptly after the expiration date and acceptance of your initial notes for exchange. Please refer to the section in this prospectus entitled The Exchange Offer Acceptance of Initial Notes for Exchange; Delivery of Exchange Notes.
U.S. Federal Income Tax Considerations Relating to the Exchange Offer	Exchanging your initial notes for exchange notes will not be a taxable event to you for United States federal income tax purposes. Please refer to the section of this prospectus entitled U.S. Federal Income Tax Considerations.
Exchange Agent	Wells Fargo Bank, National Association, is serving as exchange agent in the exchange offer.
Fees and Expenses	We will pay all expenses related to the exchange offer. Please refer to the section of this prospectus entitled The Exchange Offer Fees and Expenses.
Use of Proceeds	We will not receive any proceeds from the issuance of the exchange notes. We are making the exchange offer solely to satisfy certain of our obligations under the Registration Rights Agreement, dated as of June 28, 2011 (the Registration Rights Agreement), by and among HGI and Credit Suisse Securities (USA) LLC as initial purchaser, entered into in connection with the offering of the initial notes.
Consequences to Holders Who Do Not Participate in the Exchange Offer	If you do not participate in the exchange offer:
	except as set forth in the next paragraph, you will not necessarily be able to require us to register your initial notes under the Securities Act of 1933, as amended (the Securities Act),

you will not be able to resell, offer to resell or otherwise transfer your initial notes unless they are registered under the Securities Act or unless you resell, offer to resell or otherwise transfer them under an exemption from the registration requirements of, or in a transaction not subject to, the Securities Act, and

the trading market for your initial notes will become more limited to the extent other holders of initial notes participate in the exchange offer.

You will not be able to require us to register your initial notes under the Securities Act unless:

because of any change in applicable law or in interpretations thereof by the SEC staff, HGI is not permitted to effect the exchange offer;

the exchange offer is not consummated by the 240th day after the issue date of the initial notes (the Issue Date);

any initial purchaser so requests with respect to initial notes held by it that are not eligible to be exchanged for exchange notes in the exchange offer; or

any other holder is prohibited by law or SEC policy from participating in the exchange offer or any holder (other than an exchanging broker-dealer) that participates in the exchange offer does not receive freely tradeable exchange notes on the date of the exchange and, in each case, such holder so requests.

In these cases, the Registration Rights Agreement requires us to file a registration statement for a continuous offering in accordance with Rule 415 under the Securities Act for the benefit of the holders of the initial notes described in this paragraph. We do not currently anticipate that we will register under the Securities Act any notes that remain outstanding after completion of the exchange offer.

Please refer to the section of this prospectus entitled The Exchange Offer Your Failure to Participate in the Exchange Offer Will Have Adverse Consequences.

Resales

It may be possible for you to resell the notes issued in the exchange offer without compliance with the registration and prospectus delivery provisions of the Securities Act, subject to the conditions described under Obligations of Broker-Dealers below.

To tender your initial notes in the exchange offer and resell the exchange notes without compliance with the registration and prospectus delivery requirements of the Securities Act, you must make the following representations:

you are authorized to tender the initial notes and to acquire exchange notes, and that we will acquire good and unencumbered title to those initial notes, free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claim when the same are accepted by us,

the exchange notes acquired by you are being acquired in the ordinary course of business,

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	you have no arrangement or understanding with any person to participate in a distribution of the exchange notes and are not participating in, and do not intend to participate in, the distribution of such exchange notes,
	you are not an affiliate, as defined in Rule 405 under the Securities Act, of ours, or you will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable,
	if you are not a broker-dealer, you are not engaging in, and do not intend to engage in, a distribution of exchange notes, and
	if you are a broker-dealer, initial notes to be exchanged were acquired by you as a result of market-making or other trading activities and you will deliver a prospectus in connection with any resale, offer to resell or other transfer of such exchange notes.
	Please refer to the sections of this prospectus entitled The Exchange Offer Procedure for Tendering Initial Notes Proper Execution and Delivery of Letters of Transmittal, Risk Factors Risks Relating to the Exchange Offer Some persons who participate in the exchange offer must deliver a prospectus in connection with resales of the exchange notes and Plan of Distribution.
Obligations of Broker-Dealers	If you are a broker-dealer who receives exchange notes, you must acknowledge that you will deliver a prospectus in connection with any resales of the exchange notes. If you are a broker-dealer who acquired the initial notes as a result of market making or other trading activities, you may use the exchange offer prospectus as supplemented or amended, in connection with resales of the exchange notes. If you are a broker-dealer who acquired the initial notes directly from HGI in the initial offering and not as a result of market making and trading activities, you must, in the absence of an exemption, comply with the registration and prospectus delivery requirements of the Securities Act in connection with resales of the exchange notes.

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Summary of Terms of the Exchange Notes

The following is a summary of the terms of this offering. For a more complete description of the notes as well as the definitions of certain capitalized terms used below, see Description of Notes in this prospectus.

Issuer	Harbinger Group Inc.
Exchange Notes	$150 million aggregate principal amount of 10.625% Senior Secured Notes due 2015. The forms and terms of the exchange notes are the same as the form and terms of the initial notes except that the issuance of the exchange notes is registered under the Securities Act, will not bear legends restricting their transfer and the exchange notes will not be entitled to registration rights under our Registration Rights Agreement. The exchange notes will evidence the same debt as the initial notes, and both the initial notes and the exchange notes will be governed by the same indenture.
Maturity	November 15, 2015.
Interest	Interest will be payable in cash on May 15 and November 15 of each year, beginning November 15, 2011.
Optional Redemption	On or after May 15, 2013, we may redeem some or all of the notes at any time at the redemption prices set forth in Description of Notes Optional Redemption. In addition, prior to May 15, 2013, we may redeem the notes at a redemption price equal to 100% of the principal amount of the notes plus a make-whole premium. Before November 15, 2013, we may redeem up to 35% of the notes, with the proceeds of equity sales at a price of 110.625% of principal plus accrued interest, provided that at least 65% of the original aggregate principal amount of the notes issued under the indenture remains outstanding after the redemption, as further described in Description of Notes Optional Redemption.
Change of Control	Upon a change of control (as defined under Description of Notes), we will be required to make an offer to purchase the notes. The purchase price will equal 101% of the principal amount of the notes on the date of purchase plus accrued interest. We may not have sufficient funds available at the time of any change of control to make any required debt repayment (including repurchases of the exchange notes). See Risk Factors We may be unable to repurchase the notes upon a change of control.
Guarantors	Any subsidiary that guarantees our debt will guarantee the notes. You should not expect that any subsidiaries will guarantee the exchange notes.
Ranking	The notes will be our senior secured obligations and will:

rank senior in right of payment to our future debt and other obligations that expressly provide for their subordination to the exchange notes;

rank equally in right of payment to all of our existing and future unsubordinated debt and be effectively senior to all of our unsecured debt to the extent of the value of the collateral; and

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be effectively subordinated to all liabilities of our non-guarantor subsidiaries.

As of April 3, 2011, on a pro forma basis, we as a parent company on a standalone basis had no debt other than the notes. As of April 3, 2011, the total liabilities of Spectrum Brands Holdings were approximately $2.8 billion, including trade payables. As of March 31, 2011, the total liabilities of F&G Holdings were approximately $19.2 billion, which includes approximately $14.8 billion in annuity contractholder funds and approximately $3.8 billion in future policy benefits.

Collateral

Our obligations under the notes and the indenture are secured by a first priority lien on all of our assets (except for certain Excluded Property as defined under Description of Notes), including, without limitation:

all equity interests of our direct subsidiaries;

all cash and investment securities owned by us;

all general intangibles owned by us; and

any proceeds thereof (collectively, the collateral).

We will be able to incur additional debt in the future that could equally and ratably share in the collateral. The amount of such debt will be limited by the covenants described under Description of Notes Certain Covenants Limitation on Debt and Disqualified Stock and Description of Notes Certain Covenants Limitation on Liens. Under certain circumstances, the amount of such debt could be significant.

Qualified Reopening

We intend to treat the issuance of the initial notes as a qualified reopening of the issuance of the existing notes, which were issued with original issue discount (OID). Accordingly, for U.S. federal income tax purposes, the exchange notes will be treated as issued with OID and as having the same adjusted issue price as the existing notes. A United States Holder (as defined in Certain U.S. Federal Income Tax Considerations) that purchased the initial notes in excess of their principal amount will not be required to include OID in income. A United States Holder may elect to reduce the amount of stated interest required to be included in income each year by the amount of accrued amortizable bond premium allocable to that year with respect to such note. In addition, to the extent a portion of a United States Holder s purchase price is allocable to pre-issuance accrued interest, a portion of the first stated interest payment equal to the amount of excluded pre-issuance accrued interest will be treated as a nontaxable return of such pre-issuance accrued interest to the United States Holder. See Certain U.S. Federal Income Tax Considerations.

Certain Covenants

The indenture contains covenants, subject to specified exceptions, limiting our ability and, in certain cases, our subsidiaries ability to:

- 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. We will also be required to maintain compliance with certain financial tests, including minimum liquidity and collateral coverage ratios. You should read Description of Notes Certain Covenants for a description of these covenants.
Absence of a Public Market for the Exchange Notes	The exchange notes will be issued as part of the same class as the existing notes under the indenture, but the trading market for the notes is expected to be limited. We cannot assure you that a market for the notes will develop or that this market will be liquid. Please refer to the section of this prospectus entitled Risk Factors Risks Relating to the Notes An active public market may not develop for the notes, which may hinder your ability to liquidate your investment.
Form of the Exchange Notes	The exchange notes will be represented by one or more permanent global securities in registered form deposited on behalf of The Depository Trust Company (DTC) with Wells Fargo Bank, National Association, as custodian. You will not receive exchange notes in certificated form unless one of the events described in the section of this prospectus entitled Description of Notes Book Entry; Delivery and Form Exchange of Global Notes for Certificated Notes occurs. Instead, beneficial interests in the exchange notes will be shown on, and transfers of these exchange notes will be effected only through, records maintained in book entry form by DTC with respect to its participants.
Risk Factors	Investing in the exchange notes involves substantial risks and uncertainties. See Risk Factors and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in any exchange notes.

RISK FACTORS

Before investing in the notes, you should carefully consider the risk factors discussed below. 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 the Notes

We are a holding company and we are dependent upon dividends or distributions from our subsidiaries to fund payments on the notes, and our ability to receive funds from our subsidiaries will be dependent upon the profitability of our subsidiaries and restrictions imposed by law and contracts.

As a holding company, our only material assets are our cash on hand, the equity interests in our subsidiaries and other investments. As of April 3, 2011, after giving effect to the issuance of the initial notes, the payment of periodic interest on the existing notes that was due on May 15, 2011, the Fidelity & Guaranty Acquisition and the Preferred Stock Issuance, but excluding cash, equivalents and short-term investments held by Harbinger F&G or Spectrum Brands Holdings, we would have had approximately $500 million in cash, cash equivalents and short-term investments, which includes $300 million that was subsequently transferred to our wholly-owned subsidiary, HGI Funding, LLC. 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, this could materially limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, or otherwise fund and conduct our business.

As an example, Spectrum Brands Holdings is a holding company with limited business operations of its own and its main assets are the capital stock of its subsidiaries, principally Spectrum Brands. Spectrum Brands $300 million senior secured asset-based revolving credit facility due 2016 (the Spectrum Brands ABL Facility), its $617 million senior secured term facility due 2016 (the Spectrum Brands Term Loan), the indenture governing its 9.50% senior secured notes due 2018 (the Spectrum Brands Senior Secured Notes), the indenture governing its 12% Notes due 2019 (the Spectrum Brands Senior Subordinated Toggle Notes and, collectively, the Spectrum loan agreements) and other agreements substantially limit or prohibit certain payments of dividends or other distributions to Spectrum Brands Holdings.

Specifically, (i) each indenture of Spectrum Brands 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 Spectrum Brands plus (b) 100% of the aggregate cash proceeds from the sale of equity by Spectrum Brands (or less 100% of the net losses) plus (c) any repayments to Spectrum Brands of certain investments plus (d) in the case of the indenture governing the Spectrum Brands Senior Subordinated Toggle Notes (the 2019 Indenture),

$50 million, subject to certain other tests and certain exceptions and (ii) each credit facility of Spectrum Brands generally prohibits the payment of dividends to shareholders except out of a cumulative basket amount limited to $40 million per year. We expect that future debt of Spectrum Brands and Spectrum Brands Holdings will contain similar restrictions and we do not expect to receive dividends from Spectrum Brands Holdings in fiscal 2011.

F&G Holdings 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.

The notes are structurally subordinated to all liabilities of our subsidiaries and may be diluted by liens granted to secure future indebtedness.

The notes are our senior secured obligations, secured on a first-lien basis by a pledge of substantially all of our assets, including our equity interests in our directly held subsidiaries and all cash and investment securities owned by us. The notes are not, and are not expected to be, guaranteed by any of our current or future subsidiaries. As a result of our holding company structure, claims of creditors of our subsidiaries will generally have priority as to the assets of our subsidiaries over our claims and over claims of the holders of our indebtedness, including the notes. As of April 3, 2011, on a pro forma basis, the notes are structurally subordinated to approximately $21.9 billion in total liabilities, which is comprised of, among other things, $2.8 billion (including trade payables) of Spectrum Brands Holdings and annuity contractholder funds (approximately $14.8 billion) and future policy benefits (approximately $3.8 billion) arising from our insurance business.

The creditors of our subsidiaries have direct claims on the subsidiaries and their assets and the claims of holders of the notes are structurally subordinated to any existing and future liabilities of our subsidiaries. This means that the creditors of our subsidiaries have priority in their claims on the assets of the subsidiaries over our creditors, including the noteholders. All of our other consolidated liabilities, other than the notes, are obligations of our subsidiaries and are effectively senior to the notes.

As a result, upon any distribution to the creditors of any subsidiary in bankruptcy, liquidation, reorganization or similar proceedings, or following acceleration of our indebtedness or an event of default under such indebtedness, the lenders of the indebtedness of our subsidiaries will be entitled to be repaid in full from the proceeds of the assets securing such indebtedness, before any payment is made to holders of the notes from such proceeds. The indenture does not restrict the ability of our subsidiaries to incur additional indebtedness or grant liens secured by assets of our subsidiaries. Further, we may incur future indebtedness, some of which may be secured by liens on the collateral securing the notes, to the extent permitted by the indenture. In any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on the notes. Holders of the notes will participate ratably with all holders of our senior secured indebtedness secured by the collateral, to the extent of the value of the collateral and potentially with all of our general creditors.

The ability of the collateral agent to foreclose on the equity of our subsidiaries may be limited.

The majority of the collateral for our obligations under the notes is a pledge of our equity interests in our current and future directly held subsidiaries. There can be no assurance of the collateral agent s ability to liquidate in an orderly manner our equity interests in our directly held subsidiaries following its exercise of remedies with respect to the collateral. None of our directly held subsidiaries, other than Spectrum Brands Holdings, is publicly traded. If the collateral agent is required to exercise remedies and foreclose on the stock of Spectrum Brands Holdings pledged as collateral, it will have the right to require Spectrum Brands Holdings to file and have declared effective a shelf registration statement permitting resales of such stock. However, Spectrum Brands Holdings may not be able to cause such shelf registration statement to become effective or stay effective. The collateral agent s ability to sell Spectrum Brands Holdings stock without a registration statement may be limited by the securities laws, because such stock is control stock that was issued in a private placement, and by the terms of the Spectrum Brands Holdings Stockholder Agreement (as described in The Spectrum Brands Acquisition).

As the indirect parent company of FGL Insurance and FGL NY Insurance, Harbinger F&G is subject to the insurance holding company laws of Maryland and New York. Most states, including Maryland and New York, have insurance laws that require regulatory approval of a direct or indirect change of control of an insurer or an insurer s holding company. As a result, the ability of the collateral agent to foreclose upon the equity of Harbinger F&G or dispose of such equity will be limited by applicable insurance laws.

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The right and ability of the collateral agent to foreclose upon the equity of our subsidiaries upon the occurrence of an event of default is likely to be significantly impaired by applicable bankruptcy law if a bankruptcy proceeding were to be commenced by or against us or a subsidiary of ours prior to the collateral agent having foreclosed upon and sold the equity. Under applicable bankruptcy law, a secured creditor such as the collateral agent may be prohibited from foreclosing upon its security from a debtor in a bankruptcy case or from disposing of security repossessed from such debtor without bankruptcy court approval, which may not be given.

Moreover, the U.S. Bankruptcy Code (the Bankruptcy Code) may preclude the secured party from obtaining relief from the automatic stay in order to foreclose upon the equity if the debtor provides adequate protection. The meaning of the term adequate protection varies according to circumstances, but it is generally intended to protect the value of the secured creditor s interest in the collateral from any diminution in the value of the collateral as a result of the stay of repossession or the disposition or any use of the collateral by the debtor during the pendency of the bankruptcy case and may include, if approved by the court, cash payments or the granting of additional security. A bankruptcy court may determine that a secured creditor may not require compensation for a diminution in the value of its collateral if the value of the collateral exceeds the debt it secures.

In view of the lack of a precise definition of the term adequate protection and the broad discretionary powers of a bankruptcy court, it is impossible to predict how long payments under the notes could be delayed following commencement of a bankruptcy case, whether or when the collateral agent could repossess or dispose of the collateral, the value of the collateral at the time of the bankruptcy filing, or whether or to what extent holders of the notes would be compensated for any delay in payment or diminution in the value of the collateral. The holders of the notes may receive in exchange for their claims a recovery that could be substantially less than the amount of their claims (potentially even nothing) and any such recovery could be in the form of cash, new debt instruments or some other security. Furthermore, in the event the bankruptcy court determines that the value of the collateral is not sufficient to repay all amounts due on the notes, the holders of the notes would have an undersecured claim, which means that they would have a secured claim to the extent of the value of the collateral and an unsecured claim for the difference. Applicable federal bankruptcy laws do not permit the payment or accrual of post-petition interest, costs and attorneys fees for undersecured claims during the debtor s bankruptcy case.

If any of our subsidiaries commenced, or had commenced against it, a bankruptcy proceeding (but we had not commenced a bankruptcy proceeding), the plan of reorganization of such subsidiary could result in the cancellation of our equity interests in such subsidiary and the issuance of the equity in the subsidiary to the creditors of such subsidiary in satisfaction of their claims. At any time, a majority of the assets of our directly held subsidiaries can be pledged to secure indebtedness or other obligations of the subsidiary. For example, Harbinger F&G and F&G Holdings have pledged to OM Group the shares of capital stock of F&G Holdings and FGL Insurance, to secure certain obligations under the F&G Stock Purchase Agreement. In addition, Spectrum Brands has pledged the stock of certain of its subsidiaries to secure the indebtedness under the Spectrum Brands Senior Secured Notes, the Spectrum Brands ABL Facility and the Spectrum Brands Term Loan. In a bankruptcy or liquidation, noteholders will only receive value from the equity interests pledged to secure the notes after payment of all debt obligations of our other subsidiaries that do not guarantee the notes.

As a result of the foregoing, the collateral agent s ability to exercise remedies and foreclose on our equity interests in our directly held subsidiaries may be limited.

Foreclosure on the stock of our subsidiaries pledged as collateral could constitute a change of control under the agreements governing our subsidiaries debt or other obligations.

If the collateral agent were to exercise remedies and foreclose on a sufficient amount of the stock of Spectrum Brands Holdings pledged as collateral for the notes, the foreclosure could constitute a change of control under the agreements governing Spectrum Brands debt. Under the Spectrum Brands Term Loan and the Spectrum Brands ABL Facility, a change of control is an event of default and, if a change of control were to occur, Spectrum Brands would be required to get an amendment to these agreements to avoid a default. If

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Spectrum Brands were unable to get such an amendment, the lenders could accelerate the maturity of each of the Spectrum Brands Term Loan and the Spectrum Brands ABL Facility. In addition, under the indentures governing Spectrum Brands Senior Secured Notes and Spectrum Brands Senior Subordinated Toggle Notes, upon a change of control Spectrum Brands is required to offer to repurchase such notes from the holders at a price equal to 101% of principal amount of the notes plus accrued interest. If Spectrum Brands were unable to make the change of control offer, it would be an event of default under the indentures that could allow holders of such notes to accelerate the maturity of those notes. In the event the lenders under the Spectrum loan agreements or holders of Spectrum Brands notes exercised remedies in connection with a default, their claims to Spectrum Brands assets would have priority over any claims of the holders of the notes.

Similarly, as described under The Fidelity & Guaranty Acquisition The Reserve Facility and the CARVM Facility, if the collateral agent were to foreclose on a sufficient amount of the stock of Harbinger F&G and such foreclosure constitutes a Change of Control Transaction, OM Group s obligation to provide the Reserve Facility and the CARVM Facility would terminate. If such event occurs, Harbinger F&G would be obligated to replace the Reserve Facility and the CARVM Facility. There can be no assurance that Harbinger F&G would be able to replace such facilities upon the occurrence of such an event. See The Fidelity & Guarantee Acquisition The Reserve Facility and the CARVM Facility. Additionally, any foreclosure on a sufficient amount of the stock of Harbinger F&G could also constitute a change of control under applicable insurance regulatory laws.

Our current and future subsidiaries could also incur debt with similar features in the future.

Perfection of security interests in some of the collateral may not occur and, as such, holders of the notes may lose the benefit of such security interests to the extent a default should occur prior to such perfection or if such security interest is perfected during the period immediately preceding our bankruptcy or insolvency or the bankruptcy or insolvency of any guarantor.

Under the terms of the indenture, if any collateral is not automatically subject to a perfected security interest, then, promptly after the acquisition of such collateral, we will be required to provide security over such collateral. However, perfection of such security interests may not occur immediately. If a default should occur prior to the perfection of such security interests, holders of the notes may not benefit from such security interests.

In addition, if perfection of such security interests were to occur during a period shortly preceding our bankruptcy or insolvency or the bankruptcy or insolvency of any guarantor, such security interests may be subject to categorization as a preference and holders of the notes may lose the benefit of such security interests. In addition, applicable law requires that a security interest in certain tangible and intangible assets can only be properly perfected and its priority retained through certain actions undertaken by the secured party. The liens in the collateral securing the notes may not be perfected with respect to the claims of the notes if the collateral agent is not able to take the actions necessary to perfect any of these liens. The trustee or the collateral agent may not monitor, or we may not inform the trustee or the collateral agent of, the future acquisition of property and rights that constitute collateral, and necessary action may not be taken to properly perfect the security interest in such after-acquired collateral. Neither the trustee nor the collateral agent has an obligation to monitor the acquisition of additional property or rights that constitute collateral or the perfection of any security interest in favor of the notes against third parties. Such failure may result in the loss of the security interest therein or the priority of the security interest in favor of the notes against third parties.

There are circumstances other than repayment or discharge of the notes under which the collateral securing the notes will be released automatically, without your consent or the consent of the trustee.

Under various circumstances, collateral securing the notes and guarantees, if any, will be released automatically, including:

upon payment in full of the principal, interest and all other obligations on the notes or a discharge or defeasance thereof;

with respect to collateral held by a guarantor (if any), upon the release of such guarantor from its guarantee; and a disposition of such collateral to any person other than to us or a guarantor in a transaction that is permitted by the indenture; *provided that*, except in the case of any disposition of cash equivalents in the ordinary course of business, upon such disposition and after giving effect thereto, no default shall have occurred and be continuing, and we would be in compliance with the covenants set forth under Description of Notes Certain Covenants Maintenance of Liquidity, and Description of Notes Maintenance of Collateral Coverage (calculated as if the disposition date was a fiscal quarter-end).

See Description of Notes Security Release of Liens.

The value of collateral may not be sufficient to repay the notes in full.

The value of our collateral in the event of liquidation will depend on many factors. In particular, the equity interests of our subsidiaries that is pledged only has value to the extent that the assets of such subsidiaries are worth more than the liabilities of such subsidiaries (and, in a bankruptcy or liquidation, will only receive value after payment upon all such liabilities, including all debt of such subsidiaries). Consequently, liquidating the collateral may not produce proceeds in an amount sufficient to pay any amounts due on the notes. The fair market value of the collateral is subject to fluctuations based on factors that include, among others, prevailing interest rates, the ability to sell the collateral in an orderly sale, general economic conditions, the availability of buyers and similar factors. The amount to be received upon a sale of the collateral would be dependent on numerous factors, including the actual fair market value of the collateral at such time and the timing and the manner of the sale. By its nature, the collateral may be illiquid and may have no readily ascertainable market value. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, we cannot assure you that the proceeds from any sale or liquidation of the collateral will be sufficient to pay our obligations under the notes. Any claim for the difference between the amount, if any, realized by holders of the notes from the sale of collateral securing the notes and the obligations under the notes will rank equally in right of payment with all of our other unsecured senior debt and other unsubordinated obligations, including trade payables. To the extent that third parties establish liens on the collateral such third parties could have rights and remedies with respect to the assets subject to such liens that, if exercised, could adversely affect the value of the collateral or the ability of the collateral agent or the holders of the notes to realize or foreclose on the collateral. We may also incur obligations which would be secured by the collateral, the effect of which would be to increase the amount of debt secured equally and ratably by the collateral. The ability of the holders to realize on the collateral may also be subject to certain bankruptcy law limitations in the event of a bankruptcy. See The ability of the collateral agent to foreclose on the equity of our subsidiaries may be limited above.

We will in most cases have control over the collateral.

So long as no event of default shall have occurred and be continuing, and subject to certain terms and conditions, we will be entitled to exercise any voting and other consensual rights pertaining to all equity interests in our subsidiaries pledged pursuant to the security and pledge agreement and to remain in possession and retain exclusive control over the collateral (other than as set forth in the security and pledge agreement) and to collect, invest and dispose of any income thereon.

We may and our subsidiaries may incur substantially more indebtedness. This could exacerbate the risks associated with our leverage.

Subject to the limitations set forth in the indenture, we and our subsidiaries may incur additional indebtedness (including additional first-lien obligations) in the future. If we incur any additional indebtedness that ranks equally with the notes, the holders of that indebtedness will be entitled to share ratably with the holders of the notes in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding-up of us. If we incur additional secured indebtedness, the holders of such indebtedness will share equally and ratably in the collateral. This may have the effect of reducing the amount of proceeds paid to holders of the notes. If new indebtedness is added to our current levels of indebtedness, the related risks that we now face, including our possible inability to service our debt, could intensify.

We may be unable to repurchase the notes upon a change of control.

Under the indenture, each holder of notes may require us to repurchase all of such holder s notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest, if certain change of control events occur. However, it is possible that we will not have sufficient funds when required under the indenture to make the required repurchase of the notes, especially because such events will likely be a change of control under our subsidiaries debt documents as well. If we fail to repurchase notes in that circumstance, we will be in default under the indenture. If we are required to repurchase a significant portion of the notes, we may require third party financing as such funds may otherwise only be available to us through a distribution by our subsidiaries to us. We cannot be sure that we would be able to obtain third party financing on acceptable terms, or at all, or obtain such funds through distributions from our subsidiaries.

An active public market may not develop for the notes, which may hinder your ability to liquidate your investment.

There is only a limited trading market for the notes, and we do not intend to list them on any securities exchange or to seek approval for quotations through any automated quotation system. The initial purchaser has advised us that it intends to make a market in the notes, but the initial purchaser is not obligated to do so. The initial purchaser may discontinue any market making in the notes at any time, in its sole discretion. We therefore cannot assure you that:

a liquid market for the notes will develop;

you will be able to sell your notes; or

you will receive any specific price upon any sale of the notes.

We also cannot assure you as to the level of liquidity of the trading market for the notes, if one does develop. If a public market for the notes develops, the notes could trade at prices that may be higher or lower than their principal amount or purchase price, depending on many factors, including prevailing interest rates, the market for similar notes and our financial performance. If no active trading market develops, you may not be able to resell your notes at their fair market value or at all.

We intend to treat the issuance of the notes as a qualified reopening of the issuance of the existing notes.

We intend to treat the issuance of the notes as a qualified reopening of the issuance of the existing notes, which were issued with original issue discount (OID). Accordingly, for U.S. federal income tax purposes, the notes will be treated as issued with OID and as having the same adjusted issue price as the existing notes. A United States Holder (as defined in Certain U.S. Federal Income Tax Considerations) that purchases the notes in excess of their principal amount will not be required to include OID in income. A United States Holder may elect to reduce the amount of stated interest required to be included in income each year by the amount of accrued amortizable bond premium allocable to that year with respect to such note. In addition, to the extent a portion of a United States Holder s purchase price is allocable to pre-issuance accrued interest, a portion of the first stated interest payment equal to the amount of excluded pre-issuance accrued interest will be treated as a nontaxable return of such pre-issuance accrued interest to the United States Holder. See U.S. Federal Income Tax Considerations.

If a bankruptcy petition were filed by or against us, holders of the notes may receive a lesser amount for their claim than they would have been entitled to receive under the indenture.

If a bankruptcy petition were filed by or against us under the Bankruptcy Code after the issuance of the notes, the claim by any holder of the notes for the principal amount of the notes may be limited to an amount equal to the sum of:

- the original issue price for the notes; and

- that portion of the original issue discount, if any, that does not constitute unmatured interest for purposes of the Bankruptcy Code.

Any original issue discount that was not amortized as of the date of the bankruptcy filing would constitute unmatured interest. Accordingly, holders of the notes under these circumstances may receive a lesser amount than they would be entitled to under the terms of the indenture, even if sufficient funds are available.

Risks Related to HGI

We may not be successful in identifying any additional suitable acquisition or investment opportunities.

The successful implementation of our business strategy depends on our ability to identify and consummate suitable acquisitions or other investment 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 complete other acquisitions or investments, there is no assurance that we will be successful in enhancing our business or our financial condition. Acquisitions and investments 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 investment opportunities. The failure to identify or successfully integrate future acquisitions and investment opportunities could have a material adverse affect on our results of operations and financial condition and our ability to service our debt.

Because we face significant competition for acquisition and investment 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 investment 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 investments could involve unknown risks that could harm our business and adversely affect our financial condition.

We expect to become a diversified holding company with interests in a variety of industries and market sectors. The Spectrum Brands Acquisition, the Fidelity & Guaranty Acquisition and future acquisitions that we consummate will involve unknown risks, some of which will be particular to the industry in which the acquisition target operates. Although we intend to conduct extensive business, financial and legal due diligence in connection with the evaluation of future acquisition and investment 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 acquisitions or investments, especially if we are unfamiliar with the industry in which we invest. The realization of any unknown risks could prevent or limit us from realizing the projected benefits of the acquisitions or investments, 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 notes, will be subject to the specific risks applicable to any company we acquire or in which we invest.

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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 Holdings, 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 Holdings, see Risks Related to Spectrum Brands Holdings below.

Our investments 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 may in the future co-invest with third parties through partnerships or joint investment in an investment or acquisition target or other entities. 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 acquisition or investment targets 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 investment target and the negotiation, drafting, and execution of relevant agreements, disclosure documents, and other instruments, with respect to the investment itself and any related financings, 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, 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 designations of our preferred stock limit, and other future financing agreements may limit, our ability to operate our business.

The indenture and the certificate of designations of our Preferred Stock 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;
- 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. As of April 3, 2011, on a pro forma basis our total outstanding indebtedness (excluding the indebtedness of our subsidiaries, but including the initial notes) was $500 million. As of April 3, 2011, the total liabilities of Spectrum Brands Holdings were approximately $2.8 billion, including trade payables. As of March 31, 2011, the total liabilities of F&G Holdings were approximately $19.2 billion, including approximately $14.8 billion in annuity contractholder funds and approximately $3.8 billion in future policy benefits. Our and 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 the notes and any other outstanding 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 will 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 designations for our Preferred Stock, 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.

In addition to the Spectrum Brands Acquisition, we may 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 may 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.

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We have incurred and expect to continue to incur substantial costs associated with the Spectrum Brands Acquisition and the Fidelity & Guaranty Acquisition, 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 may be adversely affected.

We have incurred and expect to continue to incur substantial costs in connection with the Spectrum Brands Acquisition and the Fidelity & Guaranty Acquisition. These costs will reduce the amount of cash otherwise available to us for acquisitions and investments 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 in fiscal quarters subsequent to the quarter in which the relevant acquisition was consummated.

The pro forma financial statements presented are not necessarily indicative of our future financial condition or results of operations.

The pro forma financial statements contained in this prospectus are presented for illustrative purposes only and may not be indicative of our future financial condition or results of operations. The pro forma financial statements have been derived from the historical financial statements of our company and F&G Holdings, and many adjustments and assumptions have been made regarding Spectrum Brands Holdings (giving effect to the business combination of Spectrum Brands and Russell Hobbs (SB/RH Merger)), F&G Holdings and our company after giving effect to the Spectrum Brands Acquisition and the Fidelity & Guaranty Acquisition and the issuance of our Preferred Stock, which have a conversion option that needs to be separately accounted for as a derivative liability at fair value with change in fair value reported in earnings. The information upon which these adjustments and assumptions have been made is preliminary, and these kinds of adjustments and assumptions are difficult to make with complete accuracy. Moreover, the pro forma financial statements do not reflect all costs that are expected to be incurred by us in connection with the Spectrum Brands Acquisition and the Fidelity & Guaranty Acquisition and by Spectrum Brands Holdings as a result of the SB/RH Merger. For example, the impact of any incremental costs incurred in integrating Spectrum Brands and Russell Hobbs and integrating our financial reporting requirements with Spectrum Brands Holdings and F&G Holdings is not reflected in the pro forma financial statements. As a result, our actual financial condition and results of operations following the Spectrum Brands Acquisition and the Fidelity & Guaranty Acquisition may not be consistent with, or evident from, these pro forma financial statements.

The assumptions used in preparing the pro forma financial information may not prove to be accurate, and other factors may affect our future financial condition or results of operations. Any potential decline in our financial condition or results of operations could adversely affect our liquidity and ability to make interest or principal payments on the notes.

Our ability to dispose of equity interests we hold may be limited by restrictive stockholder agreements and by the federal securities laws.

When we acquire the equity interests of a company, our investment may be 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 Holdings is subject to the Spectrum Brands Holdings Stockholder Agreement, which may adversely affect our flexibility in managing our investment in Spectrum Brands Holdings. In addition, the shares of Spectrum Brands Holdings we received in the Spectrum Brands Acquisition and the shares of F&G Holdings we acquired in the Fidelity & Guaranty Acquisition 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 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, or (iii) another applicable exemption under the Securities Act. The inability to efficiently sell restricted securities 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.

The Harbinger Parties hold a majority of our outstanding common stock and have interests which may conflict with interests of our other stockholders and the holders of the notes. 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 Harbinger Parties beneficially own shares of our outstanding common stock that collectively constitute a substantial majority of our total voting power. Because of this, the Harbinger Parties, 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 Harbinger Parties 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 Harbinger Parties. In addition, the Harbinger Parties 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 decrease or increase its investment in us.

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 Harbinger Parties continue to own more than 50% of our combined voting power.

We are dependent on certain key personnel and our affiliation with Harbinger Capital; Harbinger Capital and its affiliates will exercise significant influence over us and our business activities; and business activities and other matters that affect Harbinger Capital 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 Francis T. McCarron, our Chairman of the Board and Chief Executive Officer, our Acting President and our Executive Vice President and Chief Financial Officer, respectively. Mr. Falcone is the Chief Executive Officer and Chief Investment Officer of Harbinger Capital and has significant influence over the acquisition opportunities HGI reviews. Mr. Falcone may be deemed to be an indirect beneficial owner of the shares of our common stock owned by the Harbinger Parties. 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 investment transactions. Mr. Asali is a Managing Director and the Head of Global Strategy for Harbinger Capital. Mr. McCarron is currently our only permanent, full-time executive officer. Mr. McCarron is responsible for integrating our financial reporting with Spectrum Brands Holdings and F&G Holdings and any other businesses we acquire. The loss of Mr. Falcone, Mr. Asali or Mr. McCarron or other key personnel could have a material adverse effect on our business or operating results.

Under the terms of our management agreement with Harbinger Capital, 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.

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Harbinger Capital and its affiliated funds have historically been involved in miscellaneous corporate litigation related to transactions or the protection and advancement of some of their investments, such as litigation over satisfaction of closing conditions or litigation related to proxy contests and tender offers. These actions arise from the investing activities of the funds conducted in the ordinary course of their business and do not arise from any allegations of misconduct asserted by investors in the funds against the firm or its personnel. Currently, Harbinger Capital and certain individuals are defendants in one such action for damages filed in the Delaware Court of Chancery in December 2010 concerning the Spectrum Brands Acquisition. See 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.

In addition, in the normal course of business, Harbinger Capital and its affiliates have contact with governmental authorities, and are subjected to responding to questionnaires or examinations. Harbinger Capital and its affiliates are also subject to regulatory inquiries concerning its positions and trading or other matters. The Department of Justice and the SEC are investigating, among other subjects, a loan made by the Harbinger Capital Partners Special Situations Fund, L.P. to Mr. Falcone in October 2009 and the circumstances and disclosure thereof. Such loan was repaid in full. Harbinger Capital and its affiliates continue to respond to subpoenas and voluntary requests for documents and information in connection with these investigations. The SEC is also conducting an informal investigation into whether Harbinger Capital or its affiliates engaged in market manipulation with respect to the trading of the debt securities of a particular issuer in 2006 to 2008, and an informal investigation that relates to compliance with Rule 105 of Regulation M with respect to three offerings. No criminal or enforcement charges have been brought against Harbinger Capital or its affiliates by any governmental or regulatory authority. Harbinger Capital and its affiliates are cooperating with these investigations.

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. Moreover, their unrelated business activities or legal matters could present challenges which could not only affect the amount of business time that they are able to dedicate to our affairs, but also affect their ability to help us identify, acquire and integrate acquisition candidates.

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, Messrs. Falcone and Asali may be required to present investment opportunities to the Harbinger Parties. Accordingly, they 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 Harbinger Parties have agreed, pursuant to the terms of a letter agreement with certain holders of our Preferred Stock, to, subject to certain exceptions, 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.

Changes in our investment portfolio will likely increase our risk of loss.

Because investments in U.S. Government instruments generate only nominal returns, we have established HGI Funding LLC as a vehicle for managing a portion of our excess cash while we search for acquisition opportunities. Investing in securities other than U.S. government investments will likely result in a higher risk of loss to us, particularly in light of uncertain domestic and global political, credit and financial market conditions.

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 nine employees as of March 31, 2011. In connection with the completion of the Spectrum Brands Acquisition and the Fidelity & Guaranty Acquisition, and particularly if we proceed with other acquisitions or investments, we expect to require additional personnel and enhanced information technology systems. Future growth will impose significant added 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.

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 an acquisition of an operating company, 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 Holdings, 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.

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 Internal Revenue Code of 1986, as amended (the Code), subjects a corporation which 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 common 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 fiscal year, because we had a sufficiently large net operating loss for that fiscal year. We also had a net operating loss for the 2010 fiscal year. However, so long as the Harbinger Parties 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 adversely impact our financial position, results of operations, cash flows and liquidity, and in turn our ability to make debt service payments on the notes. 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.

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.

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 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.

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 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.

Our Quarterly Report on Form 10-Q/A for the period ended September 30, 2009 stated that we did not maintain effective controls over the application and monitoring of our accounting for income taxes. Specifically, we did not have controls designed and in place to ensure the accuracy and completeness of financial information provided by third party tax advisors used in accounting for income taxes and the determination of deferred income tax assets and the related income tax provision and the review and evaluation of the application of generally accepted accounting principles relating to accounting for income taxes. This control deficiency resulted in the restatement of our unaudited condensed consolidated financial statements for the quarter ended September 30, 2009. Accordingly, we determined that this control deficiency constituted a material weakness as of September 30, 2009. As of the period ended December 31, 2009, we concluded that our ongoing remediation efforts resulted in control enhancements which had operated for an adequate period of time to demonstrate operating effectiveness. Although we believe that this material weakness has been remediated, there can be no assurance that similar weaknesses will not occur in the future which could adversely affect our future results of operations or financial condition.

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 accounting principles generally accepted in the United States (GAAP) such as F&G Holdings, 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 company 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 as 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 SEC reporting obligations may cause an event of default to occur under the indenture, or similar instruments governing any debt we incur in the future.

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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, 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.

Risks Related to Spectrum Brands Holdings

Significant costs have been incurred in connection with the Merger of Spectrum Brands and Russell Hobbs and are expected to be incurred in connection with the integration of Spectrum Brands and Russell Hobbs into a combined company, including legal, accounting, financial advisory and other costs.

Spectrum Brands Holdings expects to incur one-time costs of approximately $14 million in connection with integrating the operations, products and personnel of Spectrum Brands and Russell Hobbs into a combined company, in addition to costs related directly to completing the SB/RH Merger described below. These costs may include costs for:

- employee redeployment, relocation or severance;
- integration of information systems;
- combination of research and development teams and processes; and
- reorganization or closures of facilities.

In addition, Spectrum Brands Holdings expects to incur a number of non-recurring costs associated with combining its operations with those of Russell Hobbs, which cannot be estimated accurately at this time. As of April 3, 2011, Spectrum Brands Holdings has incurred approximately $87 million of transaction fees and other costs related to the SB/RH Merger. Additional unanticipated costs may yet be incurred as Spectrum Brands Holdings integrates its business with that of Russell Hobbs. Although Spectrum Brands Holdings expects that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of its operations with those of Russell Hobbs, may offset incremental transaction and transaction-related costs over time, this net benefit may not be achieved in the near term, or at all. There can be no assurance that Spectrum Brands Holdings will be successful in its integration efforts. In addition, while Spectrum Brands Holdings expects to benefit from leveraging distribution channels and brand names across both companies, we cannot assure you that it will achieve such benefits.

Spectrum Brands Holdings may not realize the anticipated benefits of the SB/RH Merger.

The SB/RH Merger involved the integration of two companies that previously operated independently. The integration of Spectrum Brands Holdings operations with those of Russell Hobbs is expected to result in financial and operational benefits, including increased revenues and cost savings. There can be no assurance, however, regarding when or the extent to which Spectrum Brands Holdings will be able to realize these increased revenues, cost savings 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 Holdings 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 Holdings and Russell Hobbs 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 Holdings business, financial condition and operating results.

Integrating Spectrum Brands Holdings business with that of Russell Hobbs may divert its management s attention away from operations.

Successful integration of Spectrum Brands Holdings and Russell Hobbs operations, products and personnel may place a significant burden on Spectrum Brands Holdings 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 Holdings business, financial conditions and operating results.

Because Spectrum Brands Holdings consolidated financial statements are required to reflect fresh-start reporting adjustments to be made upon emergence from bankruptcy, financial information in Spectrum Brands Holdings financial statements prepared after August 30, 2009 will not be comparable to its financial information from prior periods.

All conditions required for the adoption of fresh-start reporting were met upon Spectrum Brands emergence from Chapter 11 of the Bankruptcy Code on August 28, 2009 (the Effective Date). However, in light of the proximity of that date to Spectrum Brands accounting period close immediately following the Effective Date, which was August 30, 2009, Spectrum Brands elected to adopt a convenience date of August 30, 2009 for recording fresh-start reporting. Spectrum Brands adopted fresh-start reporting in accordance with the Accounting Standards Codification (ASC) Topic 852: Reorganizations, pursuant to which Spectrum Brands reorganization value, which is intended to reflect the fair value of the entity before considering liabilities and to approximate the amount a willing buyer would pay for the assets of the entity immediately after the reorganization, was allocated to the fair value of assets in conformity with Statement of Financial Accounting Standards No. 141, Business Combinations, using the purchase method of accounting for business combinations. Spectrum Brands Holdings stated its liabilities, other than deferred taxes, at a present value of amounts expected to be paid. The amount remaining after allocation of the reorganization value to the fair value of identified tangible and intangible assets was reflected as goodwill, which is subject to periodic evaluation for impairment. In addition, under fresh-start reporting the accumulated deficit was eliminated. Thus, Spectrum Brands and Spectrum Brands Holdings future statements of financial position and results of operations are not comparable in many respects to statements of financial position and consolidated statements of operations data for periods prior to the adoption of fresh-start reporting. The lack of comparable historical information may discourage investors from purchasing Spectrum Brands Holdings securities.

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

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

Spectrum Brands 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.

Spectrum Brands has, and expects to continue to have, a significant amount of indebtedness. As of April 3, 2011, Spectrum Brands had total indebtedness under the Spectrum Brands ABL Facility, the Spectrum Brands Term Loan and the Spectrum Brands Senior Secured Notes (collectively, the Spectrum Brands Senior Secured Facilities), the Spectrum Brands Senior Subordinated Toggle Notes and other debt of approximately $1.8 billion. Spectrum Brands 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, industry, financial, competitive, legislative, regulatory and other 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 exploiting 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.

Under the Spectrum Brands Senior Secured Facilities and the 2019 Indenture, Spectrum Brands may 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 Spectrum Brands debt bears interest at variable rates. If market interest rates increase, the interest rate on its variable rate debt will increase and will create higher debt service requirements, which would adversely affect its cash flow and could adversely impact its results of operations. While Spectrum Brands may enter into agreements limiting its exposure to higher debt service requirements, any such agreements may not offer complete protection from this risk.

Restrictive covenants in the Spectrum Brands Senior Secured Facilities and the 2019 Indenture may restrict Spectrum Brands ability to pursue its business strategies.

The Spectrum Brands Senior Secured Facilities and the 2019 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. The Spectrum Brands Senior Secured Facilities and the 2019 Indenture also contain customary events of default. These covenants, among other things, limit Spectrum Brands 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, the Spectrum Brands Senior Secured Facilities contain financial covenants relating to maximum leverage and minimum interest coverage. Such covenants could limit the flexibility of Spectrum Brands restricted entities in planning for, or reacting to, changes in the industries in which they operate. Spectrum Brands ability to comply with these covenants is subject to certain events outside of its control. If Spectrum Brands is unable to comply with these covenants, the lenders under the Spectrum Brands Senior Secured Facilities or Spectrum Brands Senior Subordinated Toggle Notes could terminate their commitments and the lenders under its Spectrum Brands Senior Secured Facilities or Spectrum Brands Senior Subordinated Toggle Notes could accelerate repayment of its outstanding borrowings, and, in either case, Spectrum Brands may be unable to obtain adequate refinancing of outstanding borrowings on favorable terms. If Spectrum Brands is unable to repay outstanding borrowings when due, the lenders under the Spectrum Brands Senior Secured Facilities or Spectrum Brands Senior Subordinated Toggle Notes will also have the right to proceed against the collateral granted to them to secure the indebtedness owed to them. If Spectrum Brands obligations under the Spectrum Brands Senior Secured Facilities and the Spectrum Brands Senior Subordinated Toggle 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 Holdings common stock, to non-affiliates of a sufficient amount of the common stock of Spectrum Brands Holdings would constitute a change of control under the agreements governing Spectrum Brands debt.

HGI owns a majority of the outstanding shares of the common stock of Spectrum Brands Holdings. The sale or other disposition by HGI to non-affiliates of a sufficient amount of the common stock of Spectrum Brands Holdings, including any foreclosure on or sale of Spectrum Brands Holdings common stock pledged as collateral for the notes, could constitute a change of control under the agreements governing Spectrum Brands debt. Under the Spectrum Brands Term Loan and the Spectrum Brands ABL Facility, a change of control is an event of default and, if a change of control were to occur, Spectrum Brands would be required to get an amendment to these agreements to avoid a default. If Spectrum Brands was unable to get such an amendment, the lenders could accelerate the maturity of each of the Spectrum Brands Term Loan and the Spectrum Brands ABL Facility. In addition, under the indenture governing the Spectrum Brands Senior Secured Notes and the 2019 Indenture, upon a change of control of Spectrum Brands Holdings, Spectrum Brands is required to offer to repurchase such notes from the holders at a price equal to 101% of principal amount of the notes plus accrued interest or obtain a waiver of default from the holders of such notes. If Spectrum Brands was unable to make the change of control offer or 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. Spectrum Brands net sales expectations have been impacted by the challenging retail environment. 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.

Spectrum Brands Holdings 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 Holdings is highly dependent on the continuing efforts of its senior management team and other key personnel. Any developments, changes or events that adversely affects Spectrum Brands Holdings ability to attract and retain key management, sales, marketing and technical personnel could have a material adverse effect on Spectrum Brands Holdings business. In addition, Spectrum Brands Holdings currently does not maintain key person insurance covering any member of its management team.

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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 Procter & Gamble), 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 market 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 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 of 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 its operating results and working capital requirements to fluctuate.

On a consolidated basis Spectrum Brands Holdings 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 grooming and electric personal care product categories, particularly in North America, tend to be concentrated in the December holiday season (Spectrum Brands Holdings first fiscal quarter). Sales of Spectrum Brands Holdings small electric appliances peak 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. Demand for pet supplies products remains fairly constant throughout the year. Demand for home and garden control products sold though the Home and Garden Business typically peaks during the first six months of the calendar year (Spectrum Brands Holdings second and third fiscal quarters). As a result of this seasonality, Spectrum Brands Holdings inventory and working capital needs fluctuate significantly during the year. 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 Holdings 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 44% of Spectrum Brands net sales for the fiscal quarter ended April 3, 2011 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 Holdings 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;

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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. 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 the past two years, 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 April 3, 2011, Spectrum Brands is estimating that at September 30, 2011 it will have U.S. federal and state net operating loss carryforwards of approximately $1,227 million and $1,076 million, respectively. These net operating loss carryforwards expire through years ending in 2032. As of April 3, 2011, Spectrum Brands management determined that it continues to be more likely than not that the net U.S. deferred tax asset, excluding certain indefinite lived intangibles, will not be realized in the future and as such recorded a full valuation allowance to offset the net U.S. deferred tax asset, 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. Spectrum Brands estimates that approximately $296 million of its federal and $463 million of its state net operating losses will expire unused due to Section 382 of the Code.

As a consequence of the merger of Salton, Inc. and Applica Incorporated in December of 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 of Russell Hobbs loss carryforwards is also subject to limitations imposed by Section 382 of the Code. The determination of the limitations is complex and requires significant judgment and analysis of past transactions. Spectrum Brands analysis to determine what portion of Russell Hobbs carryforwards are restricted or eliminated by that provision is ongoing and, pursuant to such analysis, 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 credit carryforwards is dependent upon both Russell Hobbs and Spectrum Brands achieving profitable results in the future. Russell Hobbs net operating loss carryforwards are subject to a full valuation allowance as of April 3, 2011.

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 22% of its consolidated net sales for the fiscal quarter ended April 3, 2011. 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, which 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 the fiscal quarter ended April 3, 2011, approximately 44% 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, and sells many products in, 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 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

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and publicizing its laws. China may not meet these requirements, 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 negative adverse effect on its 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 European Union (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. Complying 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 in fiscal 2011 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. For example, several million dollars have been spent on protecting the patented automatic litter box business over the last few years. 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 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. Sales of Black & Decker branded products represented approximately 12% of the total consolidated revenue in the fiscal quarter ended April 3, 2011. 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 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 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.

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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 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 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 (the EPA), the U.S. Food and Drug Administration (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, in April 2011 Spectrum s United Pet Group, in cooperation with the Consumer Products Safety Commission, voluntarily recalled approximately 1.2 million aquarium heaters sold under the Marineland Stealth and Marineland Stealth Pro brands. 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 Food Quality Protection Act (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 and fertilizer products that are sold through Spectrum Brands global pet supplies business and through the 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. (UL), 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 20% of Spectrum Brands total labor force is employed under collective bargaining agreements. One of these agreements, which covers approximately 12% of the labor force under collective bargaining agreements, or approximately 2% of Spectrum Brands total labor force, is scheduled to expire on September 30, 2011. 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 the Employee Retirement Income Security Act of 1974, as amended (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. 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 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 market value. If analysis indicates that an individual asset s carrying value does exceed its fair market 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 is 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.

Risks Related to the Fidelity & Guaranty Acquisition and Related Arrangements

If Harbinger F&G fails to replace the Reserve Facility by December 31, 2012 or the CARVM Facility by December 31, 2015, OM Group can foreclose on the shares of F&G Holdings and FGL Insurance that Harbinger F&G owns.

Under the F&G Stock Purchase Agreement, Harbinger F&G must replace the Reserve Facility as soon as practicable, but in any event no later than December 31, 2012, with a facility that enables FGL Insurance to take full credit on its statutory financial statements for the business reinsured under the Reserve Facility.

Similarly, Harbinger F&G will be required to replace the CARVM Facility as soon as practicable, but in any event no later than December 31, 2015, with a facility that enables FGL Insurance to take full credit on its statutory financial statements for the business covered under the CARVM Facility. In order to secure these and certain other secured obligations, Harbinger F&G and F&G Holdings have pledged to OM Group the shares of capital stock of F&G Holdings and FGL Insurance (the Pledged Shares). If Harbinger F&G is unable to replace the Reserve Facility by December 31, 2012 or the CARVM Facility by December 31, 2015 or otherwise defaults on its obligations under the F&G Stock Purchase Agreement with respect to the Reserve Facility, the CARVM Facility or other secured obligations, OM Group has the right to receive any and all cash dividends, payments or other proceeds paid in respect of the Pledged Shares and, at OM Group s option, subject to regulatory approval of a change of control, cause the Pledged Shares to be registered in the name of OM Group (or a nominee of OM Group). OM Group would thereafter be able to exercise (i) all voting, corporate or other rights pertaining to such shares at any shareholders meeting and (ii) any rights of conversion, exchange and subscription and any other rights, privileges or options pertaining to the Pledged Shares as if OM Group were the sole owner thereof. The intercompany loans acquired by Harbinger F&G are not pledged for the benefit of OM Group.

If OM Group were to foreclose on the Pledged Shares it would result in Harbinger F&G s total loss of the business of F&G Holdings and FGL Insurance and their direct and indirect subsidiaries (including FGL NY Insurance) and would have a material adverse effect on our business, financial condition and results of operations.

As described under the Fidelity & Guaranty Acquisition Wilton Transaction, in order to mitigate the risk associated with Harbinger F&G s obligation to replace the Reserve Facility by December 31, 2012, Harbinger F&G has entered into the Commitment Agreement with Wilton Reassurance Company (Wilton Re) to effect reinsurance of the business currently reinsured under the Reserve Facility and thereby replace the Reserve Facility in satisfaction of Harbinger F&G s requirement in respect thereof under the F&G Stock Purchase Agreement. However, if the Raven Springing Amendment is terminated or Harbinger F&G is unable to consummate the Raven Springing Amendment under the Commitment Agreement in a timely manner or at all, Harbinger F&G may not be able to replace the Reserve Facility by December 31, 2012.

The Raven Springing Amendment is subject to important closing conditions. Compliance with these conditions may impose costs or limitations on F&G Holdings business or, if Harbinger F&G is unable or unwilling to meet such conditions, it may be unable to replace the Reserve Facility by December 31, 2012.

The closing of the Raven Springing Amendment is subject to the closing conditions set forth in the Commitment Agreement, which include among other things, that (i) all material governmental approvals shall have been obtained and shall remain in effect without the imposition of adverse restrictions or conditions, (ii) no event shall have occurred that is reasonably likely to enjoin, restrain or restrict in a manner adverse to the parties the proposed reinsurance transactions or to prohibit or impose adverse conditions upon any of the parties with respect to the consummation thereof, (iii) no action, suit, proceeding or investigation before, and no order, injunction or decree shall have been entered by, any court, arbitrator or other governmental authority that is reasonably likely to enjoin, restrain, set aside or prohibit or impose adverse conditions upon, or to obtain substantial damages in respect of, the consummation of the proposed reinsurance transactions and which would be reasonably expected to impose on the parties or their affiliates additional loss, liability, cost, expense or risk, (iv) the representations and warranties of FGL Insurance shall be true and correct as of certain dates specified in the Commitment Agreement, (v) the parties shall have performed in all material respects their respective obligations and shall have complied in all material respects with the agreements and covenants required to be performed or complied by them, and (vi) certain documents and certain certifications shall have been delivered (including certifications as to the solvency of the parties). See F&G Stock Purchase Agreement and Related Arrangements Wilton Transaction. There can be no assurance that these approvals will be obtained in a timely manner or at all. In addition, the governmental authorities from which these approvals are required have broad discretion in administering the applicable regulations. As a condition to approval of the Raven Springing Amendment, these governmental authorities may impose requirements (including increased capital requirements) or place limitations on the conduct of the business of F&G Holdings after the completion of the Raven Springing Amendment. These requirements or limitations could have the effect of imposing additional costs or restrictions following approval, which could have a material adverse effect on the operating results or financial condition of F&G Holdings or cause Harbinger F&G or Wilton Re to abandon the Raven Springing Amendment. In addition, if Harbinger F&G is not able to satisfy the closing conditions to the Raven Springing Amendment and such conditions are not waived, the closing of such amendment may be delayed or may not occur at all. As a result, Harbinger F&G may be unable to satisfy its requirement to replace the Reserve Facility by December 31, 2012, which would entitle OM Group to foreclose on the Pledged Shares and exercise other rights in relation thereto.

The Raven Springing Amendment may be terminated under certain circumstances.

The Raven Springing Amendment is subject to termination (i) by either party if the closing of the reinsurance transactions thereunder has not occurred by November 30, 2013, (ii) by FGL Insurance on five days advance notice if Wilton Re has failed to perform a material obligation under the Raven Springing Amendment that has prevented the closing of the transactions thereunder to have occurred by November 30, 2012 and (iii) by either party on five days advance notice to the other party if all conditions precedent to the closing under the Raven Springing Amendment have been satisfied or waived and closing has not occurred as a result of the failure to obtain or maintain in effect any material required governmental approvals required for consummation of the transactions contemplated by the Raven Springing Amendment. If the Raven Springing Amendment is terminated, Harbinger F&G may be unable to replace the Reserve Facility by December 31, 2012 or at all. If Harbinger F&G is unable to satisfy its requirement to replace the Reserve Facility by December 31, 2012, the OM Group would be entitled to foreclose on the Pledged Shares and exercise other rights in relation thereto.

The inability or unwillingness of Wilton Re to meet its obligations under the Raven Springing Amendment could cause Harbinger F&G to be unable to replace the Reserve Facility by December 31, 2012.

Under the F&G Stock Purchase Agreement, Harbinger F&G must replace the Reserve Facility as soon as practicable, but in no event later than December 31, 2012, with a facility that enables FGL Insurance to take full credit on its statutory financial statements for the business reinsured under the Reserve Facility. Even if Harbinger F&G satisfies all of its obligations to complete the Raven Springing Amendment, if, for any reason, Wilton Re does not meet its obligations under the Raven Springing Amendment, Harbinger F&G may be unable to replace the Reserve Facility by December 31, 2012, which would entitle OM Group to foreclose on the Pledged Shares and exercise other rights in relation thereto.

Following the completion of the Raven Springing Amendment, F&G Holdings is subject to Wilton Re s credit risk.

Following the completion of the Raven Springing Amendment, F&G Holdings is subject to Wilton Re s credit risk with respect to F&G Holdings ability to recover amounts due from Wilton Re because ceded reinsurance arrangements do not eliminate F&G Holdings insurance subsidiaries obligation to pay claims to their policy holders. Wilton Re may become financially unsound or choose to dispute its contractual obligations when its reinsurance obligations become due. The inability or unwillingness of Wilton Re to meet its financial obligations to Harbinger F&G under the Raven Springing Amendment (and its other reinsurance agreements with FGL Insurance) could have a material adverse effect on the business, operating results and financial condition of F&G Holdings. Also see F&G Holdings reinsurers could fail to meet assumed obligations, increase rates, or be subject to adverse developments that could materially adversely affect F&G Holdings business, financial condition and results of operations .

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The reserve strain associated with Regulation XXX, Guideline AXXX and CARVM could negatively impact the capital position of FGL Insurance or FGL NY Insurance.

Life insurance companies operating in the United States are required to calculate required reserves for life and annuity policies based on statutory principles. These methodologies are governed by Regulation XXX (applicable to term life insurance policies), Guideline AXXX (applicable to universal life insurance policies with secondary guarantees) and the Commissioners Annuity Reserve Valuation Method, known as CARVM (applicable to annuities). Under Regulation XXX, Guideline AXXX and CARVM, insurers are required to establish statutory reserves for such policies that many market participants believe are excessive. F&G Holdings has implemented the Reserve Facility and expects to implement the Raven Springing Amendment to mitigate the impact of Regulation XXX on its existing term insurance business, and Guideline AXXX on its existing universal life insurance business. Reserves on these blocks are expected to increase $88 million in fiscal year 2011. F&G Holdings is currently not selling universal life business that generates excess reserves under Guideline AXXX. As F&G Holdings (through its insurance subsidiaries) continues to sell deferred annuity business it may decide to seek financing for the excess reserves required under CARVM. Although F&G Holdings is evaluating both internal and external solutions to fund this growth, there can be no assurance that it will be able to execute a solution that will be successful. If F&G Holdings is unsuccessful in executing these solutions, it may be required to increase prices and/or reduce its sales of universal life or annuity products, which may have a negative impact on its capital position and result in a material adverse effect on F&G Holdings business, financial condition and results of operations.

Under the Reserve Facility, Harbinger F&G may be required to post significant amounts of collateral in a short period of time.

As described under The Fidelity & Guaranty Acquisition The Reserve Facility and the CARVM Facility, during the term of the Reserve Facility, Harbinger F&G may be required to post collateral to the Administrative Agent (for the benefit of Nomura Bank International plc (NBI)) based on the outputs of a mutually agreed collateralization model. If the amounts called for by the model based on calculations to be performed at least weekly exceed $30 million, Harbinger F&G will be required to post cash collateral in the amount of such excess, subject to a limit on the total aggregate collateral posted by both Harbinger F&G and Old Mutual equal to the Total L/C Exposure. Following a demand from Nomura International plc (the Administrative Agent), collateral must be posted by Harbinger F&G on the same or the following business day and required collateral posting under the collateralization model may fluctuate significantly in a short period of time. Any additional collateral must be contributed to Harbinger F&G by HRG or made available to Harbinger F&G by its subsidiaries. Any required collateral postings could adversely affect our financial condition and liquidity, which could adversely affect our ability to service our debt.

As a result of the Fidelity & Guaranty Acquisition, F&G Holdings 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.

F&G Holdings is highly dependent on its senior management team and other key personnel for the operation and development of its business. As a result of the Fidelity & Guaranty Acquisition, F&G Holdings current and prospective management team and employees could experience uncertainty about their future roles. This uncertainty may adversely affect F&G Holdings ability to attract and retain key management, sales, marketing and technical personnel. Any failure to attract and retain key members of F&G Holdings management team or other key personnel could have a material adverse effect on F&G Holdings business, financial condition and results of operations.

Risks Related to F&G Holdings Business

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

Various nationally recognized statistical rating organizations (rating organizations) review the financial performance and condition of insurers, including F&G Holdings 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 F&G Holdings 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 F&G Holdings insurance subsidiaries could materially adversely affect F&G Holdings 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 F&G Holdings insurance products and services in order to remain competitive; or adversely affecting F&G Holdings ability to obtain reinsurance at a reasonable price, on reasonable terms, or at all. A downgrade of sufficient magnitude could result in F&G Holdings insurance subsidiaries being required to collateralize reserves, balances, or obligations under reinsurance, and securitization agreements.

Additionally, under some of its derivative contracts, F&G Holdings 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 F&G Holdings or the counterparty would be dependent on the market value of the underlying derivative contracts. Downgrades of F&G Holdings 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.

Upon the announcement of the Fidelity & Guaranty Acquisition, the financial strength ratings of F&G Holdings insurance subsidiaries were downgraded to B++ by A.M. Best Company due to the fact that, following the consummation of the Fidelity & Guaranty Acquisition, F&G Holdings no longer had an ultimate parent company with business operations in the insurance industry. Subsequent to such downgrades, our sales of new policies have decreased, due, in part, to such downgrades. If our financial strength ratings are not upgraded, we anticipate that our sales of new policies will continue to be adversely impacted and that we could see increased surrenders of existing policies. F&G Holdings cannot predict what actions the rating organizations may take in the future, and F&G Holdings insurance subsidiaries may not be able to improve its insurance subsidiaries current financial strength ratings, which could adversely affect F&G Holdings financial condition and results of operations.

The amount of statutory capital that F&G Holdings 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 are sensitive to a number of factors outside of F&G Holdings control.

F&G Holdings insurance subsidiaries are subject to regulations that provide minimum capitalization requirements based on risk-based capital (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 F&G Holdings insurance subsidiaries (which itself is sensitive to equity market and credit market conditions), the amount of additional capital F&G Holdings insurance subsidiaries must hold to support business growth, changes in reserve requirements applicable to F&G Holdings insurance subsidiaries, F&G Holdings 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, 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 Capital Markets and Investments Analytics Office of the National Association of Insurance Commissioners (NAIC), formerly known as the Securities Valuation Office, RBC formula. Most of these factors are outside of F&G Holdings control. The financial strength and credit ratings of F&G Holdings 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 F&G Holdings insurance subsidiaries must hold in order to maintain their current ratings. In addition, rating agencies may downgrade the investments held in F&G Holdings portfolio, which could result in a reduction of F&G Holdings capital and surplus and/or its RBC ratio.

In extreme equity market declines, the amount of additional statutory reserves F&G Holdings insurance subsidiaries are required to hold for fixed indexed products may increase at a rate greater than the rate of change of the markets. Increases in reserves could result in a reduction of capital, surplus, and/or RBC ratio of F&G Holdings and its insurance subsidiaries.

F&G Holdings is highly regulated and subject to numerous legal restrictions and regulations.

F&G Holdings 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 F&G Holdings 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 of F&G Holdings and its insurance subsidiaries may be ongoing. From time to time, regulators raise issues during examinations or audits of F&G Holdings and its insurance subsidiaries that could, if determined adversely, have a material impact on F&G Holdings.

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. F&G Holdings cannot predict the amount or timing of any such future assessments.

Although F&G Holdings 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 F&G Holdings business, operations and financial condition. F&G Holdings 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 F&G Holdings detriment, or that changes to the overall legal or market environment, even absent any change of interpretation by a particular regulator, may cause F&G Holdings to change its views regarding the actions it needs to take from a legal risk management perspective, which could necessitate changes to F&G Holdings practices that may, in some cases, limit its ability to grow and improve profitability.

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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.

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. F&G Holdings cannot predict whether or in what form reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect F&G Holdings 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 F&G Holdings, its competitors or those entities with which F&G Holdings 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, F&G Holdings, its competitors or the entities with which F&G Holdings does business. Legislative or regulatory requirements imposed by or promulgated in connection with the Dodd-Frank Act may impact F&G Holdings in many ways, including but not limited to: placing F&G Holdings 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 F&G Holdings 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 F&G Holdings financial condition and results of operations.

F&G Holdings 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 the Employee Retirement Income Security Act of 1974, as amended (ERISA). Severe penalties are imposed for breach of duties under ERISA.

Other types of regulation that could affect F&G Holdings 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.

F&G Holdings 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 F&G Holdings if enacted into law. In addition, because F&G Holdings 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 F&G Holdings compared to other insurance companies.

F&G Holdings reinsurers could fail to meet assumed obligations, increase rates, or be subject to adverse developments that could materially adversely affect F&G Holdings business, financial condition and results of operations.

F&G Holdings, through its insurance subsidiaries, cedes material amounts of insurance and transfers related assets and certain liabilities to other insurance companies through reinsurance. However, notwithstanding the transfer of related assets and certain liabilities, F&G Holdings remains liable with respect to ceded insurance should any reinsurer fail to meet the obligations assumed. Accordingly, F&G Holdings bears credit risk with respect to its reinsurers, including its reinsurance arrangements with Wilton. See The inability or unwillingness of Wilton Re to meet its financial obligations under the Raven Springing Amendment could harm the business or cause Harbinger F&G to be unable to replace the Reserve Facility by December 31, 2012 . The failure, insolvency, inability or unwillingness to pay under the terms of the reinsurance agreement with F&G Holdings could materially adversely affect F&G Holdings business, financial condition and results of operations.

F&G Holdings ability to compete is dependent on the availability of reinsurance or other substitute financing solutions. Premium rates charged by F&G Holdings 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 F&G Holdings 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 F&G Holdings, or if a reinsurer should fail to meet its obligations, F&G Holdings 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 F&G Holdings. 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 F&G Holdings. If the reinsurance market further contracts, F&G Holdings ability to continue to offer its products on terms favorable to it could be adversely impacted resulting in adverse consequences to F&G Holdings 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, F&G Holdings business, financial condition and results of operations could be materially adversely affected.

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

F&G Holdings 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 present value of in-force costs, policy liabilities and accruals, future earnings, and various components of F&G Holdings consolidated balance sheet. These assumptions are also used in making decisions crucial to the operation of F&G Holdings 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. F&G Holdings actual experiences, as well as changes in estimates, are used to prepare F&G Holdings consolidated statements of operations. To the extent F&G Holdings actual experience and changes in estimates differ from original estimates, F&G Holdings business, operations and financial condition may be materially adversely affected.

The calculations F&G Holdings uses to estimate various components of its balance sheet and consolidated statements of operations are necessarily complex and involve analyzing and interpreting large quantities of data. F&G Holdings 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

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nature are imprecise and subject to changes and revisions over time. Accordingly, F&G Holdings 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.

F&G Holdings 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.

F&G Holdings makes assumptions regarding the fair value and expected future performance of its investments. Expectations that F&G Holdings 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 F&G Holdings holdings of these types of securities. This could lead to potential future other-than-temporary impairments within F&G Holdings portfolio of mortgage-backed and asset-backed securities. In addition, expectations that F&G Holdings 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 F&G Holdings has invested will perform worse than current expectations. Such events may lead F&G Holdings to recognize potential future other-than-temporary impairments within its portfolio of corporate securities. It is also possible that such unanticipated events would lead F&G Holdings 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 F&G Holdings assumptions. Such events could result in a material change in the value of F&G Holdings investments, business, operations and financial condition.

As discussed under Fidelity & Guaranty Acquisition The Front Street Reinsurance Transaction, we intend to have a newly created subsidiary, Front Street, reinsure a portion of F&G s insurance and have an affiliate of Harbinger Capital manage investments on its behalf. We believe Harbinger Capital s investment expertise will benefit us by improving returns on these investments, but if Harbinger Capital is unable to achieve satisfactory returns, we could be required to fund additional capital to Front Street to satisfy its reinsurance requirements.

F&G Holdings could be forced to sell investments at a loss to cover policyholder withdrawals.

Certain products offered by F&G Holdings allow policyholders to withdraw their funds under defined circumstances. In order to meet such funding obligations, F&G Holdings 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 F&G Holdings assets are relatively illiquid. There can be no assurance that withdrawal demands will match F&G Holdings estimation of withdrawal demands. If F&G Holdings 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 F&G Holdings is forced to dispose of assets at a loss or on unfavorable terms, it could have a material adverse effect on F&G Holdings business, financial condition and results of operations.

Interest rate fluctuations could negatively affect F&G Holdings 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 trended downwards, engendering concern about their ability to remain low. In addition, as a result of uncertain domestic and global political, credit and financial market conditions, credit markets and interest rates face risks arising from liquidity and credit concerns. In order to meet its policy and contractual obligations, F&G Holdings must earn a sufficient return on its invested assets. Significant changes in interest rates expose F&G

Holdings 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 F&G Holdings interest earnings and spread income (the difference between the returns F&G Holdings earns on its investments and the amounts it must credit to policyholders and contract holders). While F&G Holdings 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 F&G Holdings business, financial condition and results of operations.

Additionally, F&G Holdings 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 F&G Holdings asset/liability management programs and procedures may be negatively affected whenever actual results differ from these assumptions.

Changes in interest rates may also impact F&G Holdings business in other ways, including affecting the attractiveness of certain of F&G Holdings products. Lower interest rates may result in lower sales of certain of F&G Holdings 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 F&G Holdings investments carry lower returns, and F&G Holdings could become unable to earn its spread income should interest rates decrease significantly.

F&G Holdings expectation for future interest earnings and spreads is an important component in amortization of value of business acquired and significantly lower interest earnings or spreads that may cause F&G Holdings to accelerate amortization, thereby reducing net income in the affected reporting period.

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, F&G Holdings 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 F&G Holdings investment portfolio and, if long-term interest rates rise dramatically within a six- to twelve-month time period, certain of F&G Holdings 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 F&G Holdings 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 F&G Holdings products. Increases in crediting rates, as well as surrenders and withdrawals, could have a material adverse effect on F&G Holdings business, financial condition and results of operations.

F&G Holdings 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.

F&G Holdings 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 F&G Holdings investment portfolio.

The value of F&G Holdings 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,

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either alone or in combination, could have a material adverse impact on F&G Holdings 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 F&G Holdings 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 F&G Holdings results of operations or financial condition.

Equity market volatility could negatively impact F&G Holdings business.

Equity market volatility can affect F&G Holdings profitability in various ways, in particular as a result of guaranteed minimum withdrawal 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 F&G Holdings net income. The rate of amortization of present value of in-force costs relating to fixed indexed annuity products and the cost of providing guaranteed minimum withdrawal benefits could also increase if equity market performance is worse than assumed.

Credit market volatility or disruption could adversely impact F&G Holdings financial condition or results from operations.

Significant volatility or disruption in credit markets could have a material adverse effect on F&G Holdings business, financial condition and results of operations. As a result of the uncertain domestic and global political, credit and financial market conditions, credit markets face risks arising from liquidity and credit concerns. Changes in interest rates and credit spreads could cause market price and cash flow variability in the fixed income instruments in F&G Holdings investment portfolio. Significant volatility and lack of liquidity in the credit markets could cause issuers of the fixed-income securities in F&G Holdings 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 F&G Holdings 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 F&G Holdings 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, 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 F&G Holdings 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 F&G Holdings 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 F&G Holdings ability to sell non-qualified annuities to individuals whose income exceeds these threshold amounts and could accelerate withdrawals due to additional tax. The constitutionality of the Health Care and

Education Reconciliation Act of 2010 is currently the subject of multiple litigation actions initiated by various state attorneys general, and the Act is also the subject of several proposals in the U.S. Congress for amendment and/or repeal. The outcome of such litigation and legislative action as it relates to the Medicare Tax is unknown at this time.

F&G Holdings may be required to increase its valuation allowance against its deferred tax assets, which could materially adversely affect F&G Holdings 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 F&G Holdings current assessment of future taxable income, including available tax planning opportunities, F&G Holdings 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 F&G Holdings current forecasts, the valuation allowance may need to be increased from the current amount, which could have a material adverse effect on F&G Holdings 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.

F&G Holdings, like other financial services companies, is involved in litigation and arbitration in the ordinary course of business. Although F&G Holdings 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, F&G Holdings cannot predict such outcome, and a judgment against F&G Holdings could be substantial. More generally, F&G Holdings operates in an industry in which various practices are subject to scrutiny and potential litigation, including class actions. In addition, F&G Holdings sells its products through IMO s, 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 F&G Holdings.

F&G Holdings is dependent on the performance of others.

Various other parties provide services or are otherwise involved in F&G Holdings business operations, and F&G Holdings results may be affected by the performance of those other parties. For example, F&G Holdings is dependent upon independent distribution channels to sell its products, and certain assets are managed by third parties. Additionally, F&G Holdings 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 F&G Holdings depends may default on their obligations to F&G Holdings due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud, or other reasons. Such defaults could have a material adverse effect on F&G Holdings financial condition and results of operations. In addition, certain of these other parties may act, or be deemed to act, on behalf of F&G Holdings or represent F&G Holdings in various capacities. Consequently, F&G Holdings may be held responsible for obligations that arise from the acts or omissions of these other parties.

F&G Holdings 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 F&G Holdings annuity and insurance products.

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

F&G Holdings retains confidential information in its computer systems, and relies on sophisticated commercial technologies to maintain the security of those systems. Despite F&G Holdings 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 F&G Holdings security measures and penetrate F&G Holdings 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 F&G Holdings computer systems that results in inappropriate access, use or disclosure of personally identifiable customer information could damage F&G Holdings reputation in the marketplace, deter people from purchasing F&G Holdings products, subject F&G Holdings to significant civil and criminal liability and require F&G Holdings 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, F&G Holdings computer systems may be inaccessible to its employees, customers, or business partners for an extended period of time. Even if F&G Holdings employees are able to report to work, they may be unable to perform their duties for an extended period of time if F&G Holdings data or systems are disabled or destroyed. Any such occurrence could materially adversely affect F&G Holdings business, operations and financial condition.

F&G Holdings insurance subsidiaries ability to grow depends in large part upon the continued availability of capital.

F&G Holdings 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, F&G Holdings 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 F&G Holdings insurance subsidiaries. Consequently, financings, if available at all, may be available only on terms that are not favorable to F&G Holdings insurance subsidiaries. If F&G Holdings 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 F&G Holdings 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 F&G Holdings.

Following the consummation of the Fidelity & Guaranty Acquisition, F&G Holdings 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. F&G Holdings can give no assurance that future changes to GAAP will not have a negative impact on F&G Holdings. 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 F&G Holdings financial statements.

In addition, F&G Holdings 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 F&G Holdings. 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. F&G Holdings cannot predict whether or in what form reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect F&G Holdings. 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. F&G Holdings 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 F&G Holdings 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. F&G Holdings 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 F&G Holdings.

F&G Holdings risk management policies and procedures could leave it exposed to unidentified or unanticipated risk, which could negatively affect its business or result in losses.

F&G Holdings has developed risk management policies and procedures and expects to continue to enhance these in the future. Nonetheless, F&G Holdings 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 F&G Holdings. Additional risks and uncertainties not currently known to F&G Holdings, or that it currently deem to be immaterial, may adversely affect F&G Holdings business, financial condition and/or operating results.

Difficult conditions in the economy generally could adversely affect F&G Holdings business, operations and financial condition.

A general economic slowdown could adversely affect F&G Holdings in the form of changes in consumer behavior and pressure on F&G Holdings investment portfolios. Changes in consumer behavior could include decreased demand for F&G Holdings products and elevated levels of policy lapses, policy loans, withdrawals, and surrenders. F&G Holdings 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 F&G Holdings investment portfolio.

F&G Holdings may not be able to protect its intellectual property and may be subject to infringement claims.

F&G Holdings relies on a combination of contractual rights and copyright, trademark, and trade secret laws to establish and protect its intellectual property. Although F&G Holdings uses a broad range of measures to protect its intellectual property rights, third parties may infringe or misappropriate its intellectual property. F&G Holdings may have to litigate to enforce and protect its copyrights, trademarks, trade secrets, and know-how 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 F&G Holdings intellectual property assets could adversely impact F&G Holdings business and its ability to compete effectively.

F&G Holdings 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. F&G Holdings 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 F&G Holdings business, results of operations, and financial condition.

F&G Holdings business could be interrupted or compromised if it experiences difficulties arising from outsourcing relationships.

In addition to services provided by third-party asset managers, F&G Holdings 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 F&G Holdings does not maintain an effective outsourcing strategy or third-party providers do not perform as contracted, F&G Holdings 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, F&G Holdings reliance on third-party service providers that it does not control does not relieve F&G Holdings of its responsibilities and requirements. Any failure or negligence by such third-party service providers in carrying out their contractual duties may result in F&G Holdings 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 F&G Holdings and its products.

F&G Holdings is exposed to the risks of natural and man-made catastrophes, pandemics and malicious and terrorist acts that could materially adversely affect F&G Holdings 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 F&G Holdings 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 F&G Holdings or its reinsurers. Such events could result in a substantial increase in mortality experience. Although F&G Holdings 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 F&G Holdings business, operations and financial condition, either directly or as a result of their affect 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 F&G Holdings 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 F&G Holdings business within such geographic areas and/or the general economic climate, which in turn could have an adverse affect on F&G Holdings business, operations and financial condition. The possible macroeconomic effects of such events could also adversely affect F&G Holdings asset portfolio.

F&G Holdings 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 F&G Holdings business, financial condition and results of operations.

F&G Holdings operates in a highly competitive industry. F&G Holdings 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 F&G Holdings 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 F&G Holdings. Competition could result in, among other things, lower sales or higher lapses of existing products.

F&G Holdings 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. F&G Holdings 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 F&G Holdings. 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 F&G Holdings 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 F&G Holdings does business could also have an adverse affect on F&G Holdings business, operations and financial condition if they demand more favorable terms than F&G Holdings previously offered or if they elect not to continue to do business with F&G Holdings following consolidation or expansion.

F&G Holdings 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. F&G Holdings 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. F&G Holdings competes for marketers and agents primarily on the basis of F&G Holdings 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 F&G Holdings offers. F&G Holdings competitiveness for such marketers and agents also depends upon the long-term relationships it develops with them. If F&G Holdings is unable to attract and retain sufficient marketers and agents to sell its products, F&G Holdings ability to compete and its revenues will suffer.

F&G Holdings ability to maintain competitive unit costs is dependent upon the level of new sales and persistency of existing business.

F&G Holdings 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. F&G Holdings business plan includes expense reductions, but there can be no assurance that such reductions will be achieved.

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

There may be adverse consequences if the independent contractor status of F&G Holdings IMOs is successfully challenged.

F&G Holdings sells its products through a network of approximately 300 IMOs representing approximately 25,000 independent agents and managing general agents. These IMOs are treated by F&G Holdings 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 F&G Holdings 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 change the manner in which employees and independent contractors are classified or makes any adverse determination with respect to some or all of F&G Holdings independent contractors, F&G Holdings could incur significant costs in complying with such laws, regulations or interpretations, including, in respect of tax withholding, social security payments and recordkeeping, or F&G Holdings 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 F&G Holdings business, financial condition and results of operations. In addition, there is the risk that F&G Holdings 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 F&G Holdings IMOs should be treated as employees, F&G Holdings could possibly incur additional liabilities with respect to any applicable employee benefit plan.

If F&G Holdings is unable to implement a new GAAP financial reporting process, it may not be able to report its financial results accurately or on a timely basis.

Following the consummation of the Fidelity & Guaranty Acquisition, F&G Holdings is required to prepare its financial statements in compliance with GAAP. For the pre-acquisition periods (2008 through March 2011), F&G Holdings prepared its financial statements in accordance with International Financial Reporting Standards (IFRS). As a result, F&G did not have the appropriate internal resources and processes established to convert previously prepared IFRS financial information to US GAAP financial statements, and needed to utilize manual workarounds.
F&G Holdings will no longer use this method going forward and is implementing a process for the preparation of financial statements in accordance with GAAP without first preparing the information in accordance with IFRS. F&G Holdings inability to complete the development and implementation of procedures and controls relating to the preparation of GAAP financial statements under the new process could materially adversely affect F&G Holdings ability to report its financial condition and results of operations in the future in a timely and reliable manner, which could in turn affect the Company s ability to prepare and report consolidated financial information accurately and in a timely manner.

See also Risks Related to HGI 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 and Risks Related to F&G Holdings Business New accounting rules, changes to existing accounting rules, or the grant of permitted accounting practices to competitors could negatively impact F&G Holdings.

Risks Related to Front Street s Business

There can be no assurance that Front Street will be able to effectively implement its business strategy or that its business will be successful.

Front Street is a Bermuda company that 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. Front Street intends to enter into long-term reinsurance transactions with insurance companies, existing reinsurers, and pension arrangements, and may also pursue acquisitions in the same sector. To date, Front Street has not entered into any reinsurance contracts, and may not do so until it is capitalized according to its business plan, which was approved by the Bermuda Monetary Authority in March 2010. There can be no assurance that Front Street will be able to successfully enter into reinsurance transactions, that such transactions will be successful, or that Front Street will be able to achieve its anticipated investment returns.

In order to operate its business, Front Street will be subject to capital and other regulatory requirements and a highly competitive landscape. In addition, among other things, any of the following could negatively impact Front Street s ability to implement its business strategy successfully: (i) failure to accurately assess the risks associated with the businesses that Front Street will reinsure, (ii) failure to obtain desirable financial strength ratings or any subsequent downgrade or withdrawal of any of Front Street s financial strength ratings, (iii) exposure to credit risk associated with brokers with whom Front Street will conduct business, (iv) failure of the loss limitation methods that Front Street employs to mitigate its loss exposure, (v) loss of key personnel, (vi) unfavorable changes in applicable laws or regulations, (vii) inability to provide collateral to ceding companies or otherwise comply with U.S. insurance regulations, (viii) inability to gain or obtain market position and (ix) exposure to litigation.

As contemplated by the terms of the F&G Stock Purchase Agreement, on May 19, 2011, the Special Committee unanimously recommended to the Board for approval (i) the Reinsurance Agreement to be entered into by Front Street and FGL Insurance, pursuant to which Front Street would reinsure up to $3 billion of insurance obligations under annuity contracts of FGL and (ii) the Investment Management Agreement to be entered into by Front Street and HCP, an affiliate of the Harbinger Parties, pursuant to which HCP would be appointed as the investment manager of up to $1 billion of assets securing Front Street s reinsurance obligations under the Reinsurance Agreement, which assets will be deposited in a reinsurance trust account for the benefit of FGL Insurance pursuant to the Trust Agreement. On May 19, 2011, the Board approved the Front Street Reinsurance Transaction.

The Reinsurance Agreement and the Trust Agreement and the transactions contemplated thereby are subject to, and may not be entered into or consummated without, the approval of the Maryland Insurance Administration, which may be granted in whole, in part, or not at all. The F&G Stock Purchase Agreement provides for up to a $50 million post-closing reduction in purchase price for the Fidelity & Guaranty Acquisition if, among other things, the Front Street reinsurance transaction is not approved by the Maryland Insurance Administration or is approved subject to certain restrictions or conditions, including if HCP is not allowed to be appointed as the investment manager for $1 billion of assets securing Front Street s reinsurance obligations under the Reinsurance Agreement. See The Fidelity & Guaranty Acquisition The Front Street Reinsurance Transaction.

Risks Related to the Exchange Offer

The issuance of the exchange notes may adversely affect the market for the initial notes.

To the extent the initial notes are tendered and accepted in the exchange offer, the trading market for the untendered and tendered but unaccepted initial notes could be adversely affected. Because we anticipate that most holders of the initial notes will elect to exchange their initial notes for exchange notes due to the absence of restrictions on the resale of exchange notes under the Securities Act, we anticipate that the liquidity of the market for any initial notes remaining after the completion of the exchange offer may be substantially limited. Please refer to the section in this prospectus entitled The Exchange Offer Your Failure to Participate in the Exchange Offer Will Have Adverse Consequences.

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Some persons who participate in the exchange offer must deliver a prospectus in connection with resales of the exchange notes.

Based on interpretations of the Staff of the SEC contained in Exxon Capital Holdings Corp., SEC no-action letter (April 13, 1988), Morgan Stanley & Co. Inc., SEC no-action letter (June 5, 1991) and Shearman & Sterling, SEC no-action letter (July 2, 1983), we believe that you may offer for resale, resell or otherwise transfer the exchange notes without compliance with the registration and prospectus delivery requirements of the Securities Act. However, in some instances described in this prospectus under Plan of Distribution, you will remain obligated to comply with the registration and prospectus delivery requirements of the Securities Act to transfer your exchange notes. In these cases, if you transfer any exchange note without delivering a prospectus meeting the requirements of the Securities Act or without an exemption from registration of your exchange notes under the Securities Act, you may incur liability under the Securities Act. We do not and will not assume, or indemnify you against, this liability.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made in this prospectus and the documents incorporated herein forward-looking statements that are subject to risks and uncertainties. These statements are based on the beliefs and assumptions of our management and the management of our subsidiaries. Generally, forward-looking statements include information concerning possible or assumed future actions, events or results of operations of our company and our subsidiaries. Forward-looking statements specifically include, without limitation, the information regarding: efficiencies/cost avoidance, cost savings, income and margins, growth, economies of scale, combined operations, the economy, future economic performance, conditions to, and the timetable for, completing the integration of Spectrum Brands Holdings and F&G Holdings financial reporting with ours, completing future acquisitions and dispositions, completing the Front Street reinsurance transaction, litigation, potential and contingent liabilities, management s plans, business portfolios, changes in regulations and taxes.

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

Forward-looking statements are not guarantees of performance. You should understand that the following important factors could affect the future results of our company (including our subsidiaries), and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements.

HGI

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

- limitations on our ability to successfully identify additional suitable acquisition and investment opportunities and to compete for these opportunities with others who have greater resources;
- the need to provide sufficient capital to our operating businesses;
- our dependence on distributions from our subsidiaries to fund our operations and payments on our debt;
- the impact of covenants in the indenture governing our senior secured notes, and future financing agreements, on our ability to operate our business and finance our pursuit of additional acquisition opportunities;

the impact on our business and financial condition of our substantial indebtedness and the significant additional indebtedness and other financing obligations we and our subsidiaries may incur;

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the impact on the aggregate value of our company portfolio 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 companies 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 controlling effect of our principal stockholders whose interests may conflict with interests of our other stockholders and holders of the notes;

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 investment portfolio;

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 researching acquisition or investment targets that are not consummated;

tax consequences associated with our acquisition, holding and disposition of target companies and assets; and

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.

Spectrum Brands Holdings

Spectrum Brands Holdings actual results or other outcomes may differ from those expressed or implied in the forward-looking statements contained or incorporated 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 Russell Hobbs 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;

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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;

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 Holdings does business;

changes in consumer spending preferences and demand for Spectrum Brands Holdings 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; and

the effects of political or economic conditions, terrorist attacks, acts of war or other unrest in international markets.

F&G Holdings

F&G Holdings 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:

Harbinger F&G s ability to replace the Reserve Facility;

Harbinger F&G s ability to consummate the Raven Springing Amendment;

Wilton Re s ability or willingness to meet its financial obligations under the Raven Springing Amendment;

F&G Holdings insurance subsidiaries ability to maintain and improve their financial strength ratings;

Harbinger F&G 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, including under the Reserve Facility;

F&G Holdings ability to control 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 F&G Holdings 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;

F&G Holdings ability to mitigate the reserve strain associated with Regulation XXX and Guideline AXXX;

the impact of interest rate fluctuations on F&G Holdings;

the availability of credit or other financings and the impact of equity and credit market volatility and disruptions on F&G Holdings;

changes in the federal income tax laws and regulations which may affect the relative income tax advantages of F&G Holdings products;

F&G Holdings 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 F&G Holdings;

F&G Holdings 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) F&G Holdings 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 of man-made catastrophes, pandemics, computer virus, network security branches and malicious and terrorist acts on F&G Holdings;

F&G Holdings ability to compete in a highly competitive industry;

Front Street s ability to effectively implement its business strategy, including the need for capital and its ability to expand its operations; and ability to obtain approval of the Maryland Insurance Administration for the Front Street reinsurance transaction.

We caution the reader that undue reliance should not be placed on any forward-looking statements, which speak only as of the date of this document. We do not undertake any duty or responsibility to update any of these forward-looking statements to reflect events or circumstances after the date of this document or to reflect actual outcomes.

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THE SPECTRUM BRANDS ACQUISITION

On June 16, 2010, Spectrum Brands Holdings completed the SB/RH Merger pursuant to the Agreement and Plan of Merger, dated as of February 9, 2010, as amended, by and among Spectrum Brands Holdings, Russell Hobbs, Spectrum Brands, Battery Merger Corp. and Grill Merger Corp. (the Merger Agreement). As a result of the completion of the SB/RH Merger, Russell Hobbs became a wholly owned subsidiary of Spectrum Brands, Spectrum Brands became a wholly owned subsidiary of Spectrum Brands Holdings and the stockholders of Spectrum Brands immediately prior to the consummation of the SB/RH Merger received shares of Spectrum Brands Holdings common stock in exchange for their shares of Spectrum Brands common stock. Immediately prior to the SB/RH Merger, the Harbinger Parties owned approximately 41% of the outstanding shares of Spectrum Brands common stock and 100% of the outstanding capital stock of Russell Hobbs and had an outstanding term loan to Russell Hobbs. Upon the completion of the SB/RH Merger, the stockholders of Spectrum Brands (other than the Harbinger Parties) owned approximately 35% of the outstanding shares of Spectrum Brands Holdings common stock and the Harbinger Parties owned approximately 65% of the outstanding shares of Spectrum Brands Holdings common stock. In connection with the consummation of the SB/RH Merger, the Spectrum Brands common stock was delisted from the NYSE and shares of Spectrum Brands Holdings common stock were listed on the NYSE under the ticker symbol SPB .

On January 7, 2011, we completed the Spectrum Brands Acquisition pursuant to the Exchange Agreement. As a result, the Harbinger Parties contributed 27,756,905 shares of Spectrum Brands Holdings common stock, (or approximately 54.5% of the then outstanding Spectrum Brands Holdings common stock, as of such date) to us in exchange for 119,909,829 newly issued shares of our common stock. This exchange ratio of 4.32 to 1.00 was based on the respective volume weighted average trading prices of our common stock ($6.33) and Spectrum Brands Holdings common stock ($27.36) on the NYSE for the 30 trading days from and including July 2, 2010 to and including August 13, 2010 (the day we received the Harbinger Parties proposal for the Spectrum Brands Acquisition). After the completion of the Spectrum Brands Acquisition, the Harbinger Parties owned approximately 93.3% of our then issued and outstanding shares of common stock. For more information regarding the ownership of our common stock, see Principal Stockholders.

Upon the consummation of the Spectrum Brands Acquisition, the Harbinger Parties, Avenue International Master, L.P. and certain of its affiliates (the Avenue Parties), and Spectrum Brands Holdings entered into a registration rights agreement, dated as of February 9, 2010 (the Spectrum Brands Holdings Registration Rights Agreement). Following the consummation of the Spectrum Brands Acquisition, we also became a party to the Spectrum Brands Holdings Registration Rights Agreement.

Under the Spectrum Brands Holdings Registration Rights Agreement, we may demand that Spectrum Brands Holdings register all or a portion of our shares of Spectrum Brands Holdings common stock for sale under the Securities Act, so long as the anticipated aggregate offering price of the securities to be offered is (i) at least $30 million if registration is to be effected pursuant to a registration statement on Form S-1 or a similar long-form registration or (ii) at least $5 million if registration is to be effected pursuant to a registration statement on Form S-3 or a similar short-form registration. We also have piggy back rights to participate in registered offerings initiated by Spectrum Brands Holdings or certain other holders.

Following the consummation of the Spectrum Brands Acquisition, we also became a party to the Stockholder Agreement, dated as of February 9, 2010 (the Spectrum Brands Holdings Stockholder Agreement), by and among the Harbinger Parties and Spectrum Brands Holdings. Under the Spectrum Brands Holdings Stockholder Agreement, the parties agree that, among other things:

Spectrum Brands Holdings will maintain (i) a special nominating committee of its board of directors (the Special Nominating Committee) consisting of three Independent Directors (as defined in the Spectrum Brands

Holdings Stockholder Agreement), (ii) a nominating and corporate governance committee of its board of directors (the Nominating and Corporate Governance Committee) and (iii) an Audit Committee in accordance with the rules of the NYSE (the NYSE rules);

for so long as we (together with our affiliates, including the Harbinger Parties) own 40% or more of Spectrum Brands Holdings outstanding voting securities, we will vote our shares of Spectrum Brands

Holdings common stock to effect the structure of Spectrum Brands Holdings board of directors described in the Spectrum Brands Holdings Stockholder Agreement and to ensure that Spectrum Brands Holdings chief executive officer is elected to its board of directors;

neither Spectrum Brands Holdings nor any of its subsidiaries will be permitted to pay any monitoring or similar fee to us or our affiliates, including the Harbinger Parties;

we will not effect any transfer of Spectrum Brands Holdings equity securities to any person that would result in such person and its affiliates beneficially owning 40% or more of Spectrum Brands Holdings outstanding voting securities (a 40% Stockholder), unless (i) such person agrees to be bound by the terms of the Spectrum Brands Holdings Stockholder Agreement, (ii) the transfer is pursuant to a bona fide acquisition of Spectrum Brands Holdings approved by Spectrum Brands Holdings board of directors and a majority of the members of the Special Nominating Committee, (iii) the transfer is otherwise specifically approved by Spectrum Brands Holdings board of directors and a majority of the Special Nominating Committee, or (iv) the transfer is of 5% or less of Spectrum Brands Holdings outstanding voting securities;

we will have certain inspection rights so long as we and our affiliates, including the Harbinger Parties, own, in the aggregate, at least 15% of the outstanding Spectrum Brands Holdings voting securities; and

we will have certain rights to obtain Spectrum Brands information, at our expense, for so long as we own at least 10% of the outstanding Spectrum Brands Holdings voting securities.

The Spectrum Brands Holdings Stockholder Agreement also provided that we would not, and we will not permit any of our affiliates, including the Harbinger Parties, to make any public announcement with respect to, or submit a proposal for, or offer in respect of, a Going-Private Transaction (as defined in the Spectrum Brands Holdings Stockholder Agreement) of Spectrum Brands Holdings unless such action is specifically requested in writing by the board of directors of Spectrum Brands Holdings with the approval of a majority of the members of the Special Nominating Committee. This limitation terminated on June 16, 2011. The other provisions of the Spectrum Brands Holdings Stockholder Agreement (other than with respect to information and investigation rights) will terminate on the date on which we and our affiliates (including the Harbinger Parties) no longer beneficially own 40% of outstanding Spectrum Brands Holdings voting securities. The Spectrum Brands Holdings Stockholder Agreement terminates when any person or group owns 90% or more of the outstanding voting securities of Spectrum Brands Holdings.

In addition, under Spectrum Brands Holdings certificate of incorporation, no 40% Stockholder shall, or shall permit any of its affiliates or any group which such 40% Stockholder or any person directly or indirectly controlling or controlled by such 40% Stockholder is a member of, to engage in any transactions that would constitute a Going-Private Transaction, unless such transaction satisfies certain requirements.

In order to permit the collateral agent to exercise the remedies under the indenture and foreclose on the Spectrum Brands Holdings common stock pledged as collateral for the notes upon an event of default under the indenture, on January 7, 2011, simultaneously with the closing of the Spectrum Brands Acquisition, the collateral agent became a party to the Spectrum Brands Holdings Stockholder Agreement and will, upon an event of default under the Indenture, and subject to certain exceptions, become subject to all of its covenants, terms and conditions to the same extent as HGI prior to such event of default.

THE FIDELITY & GUARANTY ACQUISITION

On March 7, 2011, we entered into the Transfer Agreement with the Master Fund, pursuant to which, on March 9, 2011, (i) we acquired from the Master Fund a 100% membership interest in Harbinger F&G and (ii) the Master Fund transferred to Harbinger F&G the sole issued and outstanding Ordinary Share of FS Holdco. In consideration for the interests in FS Holdco and Harbinger F&G, we agreed to reimburse the Master Fund for certain expenses incurred by the Master Fund (up to a maximum of $13.3 million) in connection with the Fidelity & Guaranty Acquisition and to submit certain expenses of the Master Fund for reimbursement by OM Group under the F&G Stock Purchase Agreement. Following the consummation of the foregoing acquisitions, Harbinger F&G became a direct wholly-owned subsidiary of HGI, FS Holdco became an indirect wholly-owned subsidiary of Harbinger F&G and Front Street became the indirect wholly-owned subsidiary of Harbinger F&G.

On April 6, 2011, pursuant to the F&G Stock Purchase Agreement, Harbinger F&G acquired from OM Group all of the outstanding shares of capital stock of F&G Holdings and certain intercompany loan agreements between OM Group, as lender, and F&G Holdings, as borrower, in consideration for $350 million. As described further herein, the $350 million purchase price may be reduced by up to $50 million post-closing if certain regulatory approvals are not obtained. Following the consummation of the Fidelity & Guaranty Acquisition, (i) F&G Holdings became a direct wholly-owned subsidiary of Harbinger F&G and (ii) FGL Insurance and FGL NY Insurance became the wholly-owned subsidiaries of F&G Holdings. FGL Insurance and FGL NY Insurance are our principal insurance companies.

The Reserve Facility and the CARVM Facility

Life insurance companies operating in the United States are required to calculate required reserves for life and annuity policies based on statutory principles. These methodologies are governed by Regulation XXX (applicable to term life insurance policies), Guideline AXXX (applicable to universal life insurance policies with secondary guarantees) and the Commissioners Annuity Reserve Valuation Method, known as CARVM (applicable to annuities). Under Regulation XXX, Guideline AXXX and CARVM, insurers are required to establish statutory reserves for such policies that many market participants believe are excessive.

Insurers often use ceded reinsurance to facilitate the financing of certain of these excess reserves. Prior to the closing of the Fidelity & Guaranty Acquisition, FGL Insurance had financed these reserves through various reinsurance contracts consisting of: (i) four reinsurance contracts between FGL Insurance and Old Mutual Reassurance (Ireland) Limited, a subsidiary of OM Group (OM Ireland), pursuant to which OM Ireland reinsured life insurance policies subject to Regulation XXX and Guideline AXXX reserve requirements (the XXX/AXXX Agreements) and (ii) one reinsurance contract pursuant to which OM Ireland reinsured annuities subject to CARVM reserve requirements (the CARVM Treaty). Following the consummation of the Fidelity & Guaranty Acquisition, FGL Insurance stopped ceding XXX/AXXX reserves to OM Ireland on September 30, 2010 and FGL Insurance stopped ceding reserves to OM Ireland under the CARVM Treaty on December 31, 2010. The liabilities ceded under the XXX/AXXX Agreements were recaptured by FGL Insurance in connection with the consummation of the Fidelity & Guaranty Acquisition.

Reserve Facility. In connection with the consummation of the Fidelity & Guaranty Acquisition, OM Group consummated a reserve funding transaction with FGL Insurance with respect to the policies previously reinsured by OM Ireland under the XXX/AXXX Agreements (the Reserve Facility). As contemplated by the F&G Stock Purchase Agreement, the reinsurance and related financing provided by the XXX/AXXX Agreements was replaced by the Reserve Facility as follows:

The life insurance policies previously ceded to OM Ireland under the XXX/AXXX Agreements (the Recaptured Policies) were recaptured by FGL Insurance.

Certain of the Recaptured Policies (the Raven Policies) that were issued prior to March 31, 2010 were then ceded by FGL Insurance to Raven Reinsurance Company, a newly formed special purpose captive reinsurer domiciled in Vermont that is owned by FGL Insurance (the Vermont Captive). The Recaptured Policies issued after March 31, 2010 were retained by FGL Insurance. Assets backing the economic reserves associated with the Raven Policies (that is, the non-excess reserves required by statutory accounting requirements) are held by

FGL Insurance on a funds-withheld basis. The excess reserves associated with the Raven Policies are secured by a reinsurance credit trust established by the Vermont Captive for the benefit of FGL Insurance. The assets in trust consist of (i) a letter of credit (the Letter of Credit) issued by NBI and (ii) certain senior trust notes (the Senior Trust Notes) issued by a Delaware trust (which were submitted to the NAIC that in turn, holds notes issued by an affiliate of NBI, which notes may in certain circumstances be put to such affiliate of NBI). The Reserve

Facility will initially provide FGL Insurance financing for the excess reserves through the Letter of Credit and the Senior Trust Notes. The face amount of the Letter of Credit and the Senior Trust Notes is $535 million in the aggregate (the Total L/C Exposure) may be reduced in certain circumstances.

FGL Insurance transferred $250,000, the amount of the Vermont Captive s statutory minimum capital, to the regulatory account of the Vermont Captive in exchange for common stock issued by the Vermont Captive to FGL Insurance.

OM Group contributed $95 million to the Vermont Captive in exchange for a surplus note, which amount will be held in a surplus account of the Vermont Captive, along with other amounts received by the Vermont Captive in excess of the Reserve Facility s minimum capital and surplus requirements.

During the term of the Reserve Facility, the Vermont Captive and Harbinger F&G have agreed to maintain Total Modified Adjusted Capital (generally defined with reference to the definition of Total Adjusted Capital in applicable Vermont statutes as in effect as of December 31, 2009, subject to certain exclusions) of the Vermont Captive at a level equal to the greater of (x) 300% of the Vermont Captive s Company Action Level Risk Based Capital (generally defined with reference to applicable Vermont statutes and the risk-based capital factors and formula prescribed by the NAIC, each as in effect as of December 31, 2009) requirement or (y) $95 million (the greater of such amounts, Minimum Capital Amount). In the event that the Vermont Captive fails to maintain the Minimum Capital Amount for any quarter, Harbinger F&G is required to make a capital contribution equal to the amount of the shortfall for deposit into the surplus account. If Harbinger F&G fails to make the capital contribution, OM Group is required to make the capital contribution equal to the shortfall.

For the benefit of NBI, FGL Insurance paid a structuring fee to the Administrative Agent in the amount of $13.7 million.

Until December 31, 2012, the Vermont Captive and Harbinger F&G are jointly and severally obligated to pay to the Administrative Agent (for the benefit of NBI) a portion of the Facility Fee described below, of up to 150 basis points per annum on the face amount of the Total L/C Exposure. Until December 31, 2012, any portion of the Facility Fee above the Total L/C Exposure will be paid by Old Mutual plc (Old Mutual). The Facility Fee is calculated as the amount accrued with respect to the Total L/C Exposure at an annual rate of 1.38%.

During the term of the Reserve Facility, Harbinger F&G and Old Mutual may be required to post collateral to the Administrative Agent (for the benefit of NBI) based on the outputs of a mutually agreed collateralization model. If the amounts called for by the model based on calculations to be performed at least weekly exceed $15 million, then Old Mutual will be required to post cash collateral in the amount of such excess (to the extent not already posted) up to an additional $15 million and, to the extent such calculations call for amounts exceeding $30 million, Harbinger F&G will be required to post cash collateral in the amount of such excess (to the extent not already posted), subject to a limit on the total aggregate collateral posted by both Harbinger F&G and Old Mutual equal to the Total L/C Exposure. Following a demand from the Administrative Agent, collateral must be posted by Harbinger F&G on the same or the following business day and required collateral posting under the collateralization model may fluctuate significantly in a short period of time. Any additional collateral must be funded by HRG or made available to Harbinger F&G by its subsidiaries. To the extent that the amounts called for by the collateralization model decrease and collateral has already been posted by Harbinger F&G or by Old Mutual, cash in the amount of the decrease would be returned to Harbinger F&G or to Old Mutual, as the case may be. Each of these transfers of cash is subject to a $250,000 *de minimis* threshold.

In the event that FGL Insurance requests a draw on the assets in the reinsurance credit trust, NBI may direct the payment of the disbursement amount from either the Letter of Credit or the Senior Trust Notes. In the event of disbursement by NBI under either instrument, Harbinger F&G is obligated to make an immediate reimbursement to the Administrative Agent (for the benefit of NBI). If Harbinger F&G fails to make such reimbursement, the Vermont Captive is required to make the reimbursement. If both Harbinger F&G and the Vermont Captive fail to make the reimbursement, OM Group is required to reimburse the Administrative Agent for NBI s benefit.

Under the F&G Stock Purchase Agreement, OM Group s obligation to provide the Reserve Facility terminates upon the earlier of (i) replacement of the Reserve Facility by a facility or facilities that enable FGL Insurance to take full credit on its statutory financial statements for all of the business reinsured under the Reserve Facility; (ii) December 31, 2012; and (iii) the occurrence of any transaction pursuant to which Harbinger Capital and its affiliates collectively cease to own, directly or indirectly, an aggregate of at least 40% of the outstanding equity ownership or other economic interest in or voting securities or voting power of FGL Insurance or any parent company of FGL Insurance or cease to control FGL Insurance or any parent company of FGL Insurance, and after the consummation of such transaction FGL Insurance would reasonably be expected to have a financial strengths rating by A.M. Best Company of below A- (a Change of Control Transaction).

Pursuant to the F&G Stock Purchase Agreement, Harbinger F&G agreed to replace the Reserve Facility as soon as practicable, but in no event later than December 31, 2012, with a facility that enables FGL Insurance to take full credit on its statutory financial statements for the business reinsured under the Reserve Facility. In order to secure this and certain other obligations under the F&G Stock Purchase Agreement, Harbinger F&G and F&G Holdings have pledged to OM Group the Pledged Shares. In the event that the Reserve Facility is not replaced by that date, OM Group may foreclose on the Pledged Shares and exercise other rights in relation thereto. See Other Agreements below. Alternatively, OM Group may agree to extend the Reserve Facility for successive three-month periods, until December 31, 2015, at a stepped-up Facility Fee payable solely by the Vermont Captive and Harbinger F&G. To the extent OM Group, rather than Harbinger F&G, posts collateral to the Administrative Agent (for the benefit of NBI), Harbinger F&G will be required to pay to OM Group the amount of any such collateral posted by OM Group under the Reserve Facility plus interest on such amount. In addition, upon the earlier of December 31, 2012 or the date that the Reserve Facility is replaced, Harbinger F&G will be required to purchase from OM Group the $95 million surplus note OM Group acquired to capitalize the Vermont Captive.

The CARVM Facility. Under the F&G Stock Purchase Agreement, OM Group is required to support certain annuity reserves through letters of credit or other financing sponsored by OM Group (the CARVM Facility) to enable FGL Insurance to take full credit on its statutory financial statements for certain annuity liabilities that are subject to CARVM reserve requirements. OM Group s obligation to provide the CARVM Facility terminates upon the earlier of (i) replacement of the CARVM Facility by a facility or facilities that enable FGL Insurance to take full credit on its statutory financial statements for all CARVM business (as described further below); (ii) December 31, 2015; and (iii) the occurrence of a Change of Control Transaction. To satisfy OM Group s obligation to provide the CARVM Facility, these annuity liabilities remained reinsured under the CARVM Treaty. The CARVM Treaty is expected to remain in place until December 31, 2015, by which time the amount of the excess CARVM reserves is expected to have been substantially reduced because the amount of excess reserves required under CARVM diminishes over time.

Harbinger F&G will be required to replace the CARVM Facility as soon as practicable, but in any event no later than December 31, 2015, with a facility that enables FGL Insurance to take full credit on its statutory financial statements for the business covered under the CARVM Facility. In the event that the CARVM Facility is not replaced by that date, OM Group may foreclose on the Pledged Shares and exercise other rights in relation thereto. See Other Agreements below. In addition, on the earlier of December 31, 2015 or the date that the CARVM Facility is replaced, Harbinger F&G will be required to pay to OM Group the amount of any collateral posted by OM Group under the CARVM Facility plus interest on such amount.

The Front Street Reinsurance Transaction

As contemplated by the terms of the F&G Stock Purchase Agreement, on May 19, 2011, the Special Committee unanimously recommended to the Board for approval (i) the Reinsurance Agreement to be entered into by Front Street and FGL Insurance, pursuant to which Front Street would reinsure up to $3 billion of insurance obligations under annuity contracts of FGL and (ii) the Investment Management Agreement to be entered into by Front Street and HCP, an affiliate of the Harbinger Parties, pursuant to which HCP would be appointed as the investment manager of up to $1 billion of assets securing Front Street s reinsurance obligations under the Reinsurance Agreement, which assets will be deposited in a reinsurance trust account for the benefit of FGL Insurance pursuant the Trust Agreement. On May 19, 2011, our Board approved the Front Street Reinsurance Transaction.

The Reinsurance Agreement and the Trust Agreement and the transactions contemplated thereby are subject to, and may not be entered into or consummated without, the approval of the Maryland Insurance Administration. The F&G Stock Purchase Agreement provides for up to a $50 million post-closing reduction in purchase price for the Fidelity & Guaranty Acquisition if, among other things, the Reinsurance Agreement and the Trust Agreement and the transactions contemplated thereby are not approved by the Maryland Insurance Administration or are approved subject to certain restrictions or conditions, including if HCP is not allowed to be appointed as the investment manager for $1 billion of assets securing Front Street s reinsurance obligations under the Reinsurance Agreement.

Indemnification

The F&G Stock Purchase Agreement includes customary mutual indemnification provisions relating to breaches of representations, warranties and covenants. In addition, Harbinger F&G agreed to indemnify OM Group for, among other things, any losses arising out of the provision by OM Group of the CARVM Facility and the Reserve Facility, in each case, including with respect to any obligation to post collateral, reimburse for a draw on a letter of credit or contribute capital, except to the extent such losses were caused by OM Group.

Wilton Transaction

On January 26, 2011, Harbinger F&G entered into an agreement (the Commitment Agreement) with Wilton Re U.S. Holdings, Inc. (Wilton), pursuant to which Wilton agreed to cause Wilton Re, its wholly owned subsidiary and a Minnesota insurance company, to enter into certain coinsurance arrangements with FGL Insurance following the closing of the Fidelity & Guaranty Acquisition. Pursuant to the Commitment Agreement, Wilton Re is required to reinsure certain of FGL Insurance s policies that are subject to redundant XXX/AXXX reserves and that are currently reinsured by the Vermont Captive under the Reserve Facility (the Raven Block), as well as another block of FGL Insurance s in-force traditional, universal and interest sensitive life insurance policies (the Camden Block). Upon the completion of such reinsurance transactions, substantially all of FGL Insurance s in-force life insurance business issued prior to April 1, 2010 will have been reinsured. Under the Commitment Agreement, these coinsurance arrangements are required to be effected pursuant to two separate amendments to the existing Automatic Reinsurance Agreement, by and between FGL Insurance and Wilton Re, effective as of December 31, 2007.

The amendment relating to the reinsurance of the Camden Block was executed on April 6, 2011 and the reinsurance thereunder became effective as of April 1, 2011. Under the Commitment Agreement, Harbinger F&G had the right to choose between two alternative structures for the implementation of the reinsurance of the Raven Block, each of which is subject to certain closing conditions as described below (collectively, the Wilton Raven Amendments). Harbinger F&G had the right to elect to cause Wilton Re to reinsure the Raven Block effective (i) at a date during the second or third quarters of its fiscal 2011 or (ii) on or about November 30, 2012 (the Raven Springing Amendment). Effective April 26, 2011, Harbinger F&G elected the Raven Springing Amendment. The Raven Springing Amendment is intended to mitigate the risk associated with Harbinger F&G s obligation under the F&G Stock Purchase Agreement to replace the Reserve Facility by December 31, 2012.

Pursuant to the terms of the Raven Springing Amendment, the amount payable to Wilton at the closing of such amendment will be adjusted to reflect the economic performance of the Raven Block from January 1, 2011 until the effective time of the closing of the Raven Springing Amendment. However, Wilton Re will have no liability with respect to the Raven Block prior to the effective date of the Raven Springing Amendment and, regardless of the date of closing of Wilton s obligation to reinsure the Raven Block. In addition, Wilton s reinsurance of the Raven Block will not extinguish FGL Insurance s liability with respect to the Raven Block because FGL Insurance remains directly liable to the Raven Block policyholders and is required to pay the full amount of its policy obligations in the event that Wilton fails to satisfy its obligations under the Raven Springing Amendment.

The closing of the Raven Springing Amendment is subject to the closing conditions set forth in the Commitment Agreement, which include among other things, that (i) all material governmental approvals shall have been obtained and shall remain in effect without the imposition of adverse restrictions or conditions, (ii) no event shall have occurred that is reasonably likely to enjoin, restrain or restrict in a manner adverse to the parties the proposed reinsurance transactions or to prohibit or impose adverse conditions upon any of the parties with respect to the consummation thereof, (iii) no action, suit, proceeding or investigation before, and no order, injunction or decree shall have been entered by, any court, arbitrator or other governmental authority that is reasonably likely to enjoin, restrain, set aside or prohibit or impose adverse conditions upon, or to obtain substantial damages in respect of, the consummation of the proposed reinsurance transactions and which would be reasonably expected to impose on the parties or their affiliates additional loss, liability, cost, expense or risk, (iv) the representations and warranties of FGL Insurance shall be true and correct as of certain dates specified in the Commitment Agreement, (v) the parties shall have performed in all material respects their respective obligations and shall have complied in all material respects with the agreements and covenants required to be performed or complied by them, and (vi) certain documents and certain certifications shall have been delivered (including certifications as to the solvency of the parties). Any of the foregoing conditions may be waived by the party that is the beneficiary of such condition. In order to increase the closing certainty in respect of the reinsurance transactions contemplated under the Raven Springing Amendment, the Commitment Agreement permits either party to remedy the failure to satisfy any of the foregoing conditions through indemnification or other remedy that would put the other party in a position to realize an equivalent benefit of its bargain as contemplated under the proposed transactions.

The governmental approvals required for the implementation of the Raven Springing Amendment include, among others, the approval of the Maryland Insurance Administration for the recapture of the Raven Block from the Vermont Captive and the reinsurance by FGL Insurance of substantially all of a major class of its insurance in force by an agreement of bulk reinsurance. Filings with the Maryland Insurance Administration requesting these approvals were made in the second quarter of 2011.

The Raven Springing Amendment is subject to termination (i) by either party if the closing of the reinsurance transactions thereunder has not occurred by November 30, 2013, (ii) by FGL Insurance on five days advance notice if Wilton Re has failed to perform a material obligation under the Raven Springing Amendment that has prevented the closing of the transactions thereunder to have occurred by November 30, 2012 and (iii) by either party on five days advance notice to the other party if all conditions precedent to the closing under the Raven Springing Amendment have been satisfied or waived and closing has not occurred as a result of the failure to obtain or maintain in effect any material required governmental approvals required for consummation of the transactions contemplated by the Raven Springing Amendment.

Other Agreements

In connection with the F&G Stock Purchase Agreement, Harbinger F&G has entered into the Guarantee and Pledge Agreement (the Pledge Agreement). Pursuant to the Pledge Agreement, Harbinger F&G and F&G Holdings have granted security interests in the Pledged Shares to OM Group in order to secure certain of Harbinger F&G s obligations arising under the F&G Stock Purchase Agreement, including its indemnity obligations and its obligations with respect to the replacement of the CARVM Facility and the Reserve Facility, its obligation to return to OM Group any collateral posted by OM Group in connection with the Reserve Facility or the CARVM Facility and its obligation to purchase the $95 million surplus note OM Group acquired to capitalize the Vermont Captive as described above (collectively, the Secured Obligations). In the event that Harbinger F&G defaults or breaches such covenants, OM Group could foreclose upon the Pledged Shares. OM Group would also have the right to receive any and all cash dividends, payments or other proceeds paid in respect of the Pledged Shares, and at OM Group s option, subject to regulatory approval of a change of control, cause the Pledged Shares to be registered in the name of OM Group or a nominee, such that OM

Group may thereafter exercise (i) all voting, corporate or other rights pertaining to the Pledged Shares and (ii) any rights of conversion, exchange and subscription and any other rights, privileges or options pertaining to the Pledged Shares as if OM Group were the sole owner thereof. Prior to causing the Pledged Shares to be registered in the name of OM Group or a nominee, OM Group or such nominee would be required to obtain the prior approval of the Maryland Insurance Administration, the New York Insurance Department and the Vermont Department of Banking, Investment and Health Care Administration for such change of control.

THE PREFERRED STOCK ISSUANCE

On May 12, 2011, pursuant to the Preferred Stock Purchase Agreement, we sold an aggregate of 280,000 shares of Preferred Stock to the Preferred Stock Purchasers at a purchase price of $1,000 per share (the Purchase Price), resulting in aggregate gross proceeds to us of $280 million. The proceeds are being used for general corporate purposes, which may include acquisitions and other investments. Funding of the transaction occurred on May 13, 2011 (the Preferred Stock Issue Date).

Each share of Preferred Stock is initially convertible into shares of our common stock at a conversion price of $6.50, which is subject to adjustment (which are to be made on a weighted average basis) for dividends, certain distributions, stock splits, combinations, reclassifications, reorganizations, recapitalizations and similar events, as well as in connection with issuances of our common stock (and securities convertible or exercisable for our common stock) below such price (the Conversion Price). Until certain regulatory filings are made and approvals are obtained, Preferred Stock may not be converted if upon such conversion the holder s beneficial ownership would exceed certain thresholds.

The Preferred Stock will accrue a cumulative quarterly cash dividend at an annualized rate of 8%. The Purchase Price of the Preferred Stock will accrete quarterly at an annualized rate of 4% that will be reduced to 2% or 0% if we achieve specified rates of growth measured by increases in our net asset value. The Preferred Stock is also entitled to participate in cash and in-kind distributions to holders of our shares of common stock on an as converted basis.

On the seventh anniversary of the Preferred Stock Issue Date, holders of the Preferred Stock are entitled to cause us to redeem the Preferred Stock at the Purchase Price per share plus accrued but unpaid dividends. Each share of Preferred Stock that is not so redeemed will be automatically converted into shares of our common stock at the Conversion Price then in effect.

Upon a change of control (which is defined in a manner similar to the indenture except that references to Permitted Holders are deemed to also include the Preferred Stock Purchasers and their affiliates), holders of the Preferred Stock are entitled to cause us to redeem their Preferred Stock at a price per share of Preferred Stock equal to the sum of 101% of the Purchase Price and any accrued and unpaid dividends, including accrued and unpaid cash and accreting dividends for the then current dividend period.

At any time after the third anniversary of the Preferred Stock Issue Date, we may redeem the Preferred Stock, in whole but not in part, at a price per share equal to 150% of the Purchase Price plus accrued but unpaid dividends, subject to the holder s right to convert prior to such redemption.

After the third anniversary of the Preferred Stock Issue Date, we may force the conversion of the Preferred Stock into shares of our common stock if the thirty day volume weighted average price of shares of our common stock (VWAP) and the daily VWAP exceed 150% of the then applicable Conversion Price for at least twenty trading days out of the thirty trading day period used to calculate the thirty day VWAP. In the event of a forced conversion, the holders of Preferred Stock will have the ability to elect cash settlement in lieu of conversion if certain market liquidity thresholds for our common stock are not achieved. In addition, for so long as the Fortress Purchaser owns sufficient combined voting power (through ownership of Preferred and shares of our common stock) to entitle it to nominate directors to our Board or appoint observers (as described below) or exercise certain consent rights, our ability to force conversion of the Preferred Stock is limited such that after any such conversion the Fortress Purchaser will have the right to retain one share of Preferred Stock, enabling it to continue to exercise its right to nominate directors, appoint observers or exercise consent rights associated with the Preferred Stock, but such Preferred Stock will have no other rights or preferences. Once the Fortress Purchaser ceases to own sufficient combined voting power to exercise these rights, the retained share of Preferred Stock will be automatically cancelled.

In the event of our liquidation or wind up, the holders of Preferred Stock will be entitled to receive per share the greater of (i) 150% of the Purchase Price, plus any accrued and unpaid dividends and (ii) the value that would be received if the share of Preferred Stock were converted into shares of our common stock immediately prior to the liquidation or winding up.

Prior to the fifth anniversary of the Preferred Stock Issue Date, subject to meeting certain ownership thresholds, certain Preferred Stock Purchasers will be entitled to participate, on a pro rata basis in accordance with their ownership percentage, determined on an as converted basis, in issuances of equity and equity linked securities by us. In addition, subject to meeting certain ownership thresholds, certain Preferred Stock Purchasers will be entitled to participate in issuances of preferred securities and in debt transactions.

Consent of the holders of Preferred Stock is required before any fundamental change can be made to the Preferred Stock, including changes to the terms of the Preferred Stock with respect to liquidation preference, dividend, or redemption rights. Consent of the holders of a majority of Preferred Stock is required before, subject to certain exceptions, any material action may be taken with respect to the Preferred Stock, including issuing stock senior or pari passu to the Preferred Stock and incurring debt, or permitting a subsidiary to incur debt or selling assets or permitting a subsidiary to sell assets not otherwise permitted by the indenture (or any replacement thereof). While the Fortress Purchaser continues to own at least 50% of the Preferred Stock purchased on the Preferred Stock Issue Date (either as Preferred Stock or shares of our common stock upon conversion), consent of the Fortress Purchaser is required before any action may be taken which requires approval by a majority of the holders of Preferred Stock or any action with respect to certain related party transactions between HGI and its affiliates.

Subject to certain approval from certain insurance regulatory authorities, so long as the Fortress Purchaser owns at least 50% of the Preferred Stock purchased on the Preferred Stock Issue Date or 10% of our outstanding shares of common stock on an as converted basis, the Fortress Purchaser will have the right to appoint one director to our Board who will be entitled to be a member of any committee of our Board (except for any special committee formed to consider a related party transaction involving the Fortress Purchaser).

If the Fortress Purchaser does not appoint a director to our Board, subject to meeting certain ownership thresholds, the Fortress Purchaser has the right to appoint an observer to attend all meetings of our Board, any committee of our Board, and the board of any of our wholly owned subsidiaries on which it does not have a director.

Upon a specified breach event (described below) the size of our Board will be increased by one or two directors, depending on whether the Fortress Purchaser has appointed a director to our Board prior to such breach. The Fortress Purchaser, or a majority of Preferred Stock Purchasers if the Fortress Purchaser at that time owns less than a threshold amount, in either shares of our common stock or Preferred Stock, will have the right to appoint one or two directors, reasonably acceptable to our Board.

Subject to meeting certain ownership thresholds, 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 (a Director Addition Event), the Fortress Purchaser may appoint such number of 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.

Notwithstanding all of the foregoing, the Fortress Purchaser s representation on our Board will always be less than or proportionate to its ownership of our securities and must otherwise comply with the rules of the NYSE and certain insurance regulatory authorities.

We are subject to additional restrictions under the Preferred Stock s certificate of designation, including that upon a specified breach event (such as an event of default under the indenture, our failure to pay any dividends on the Preferred Stock for a period longer than 90 days, our failure to maintain a 1:1 ratio of cash

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and cash equivalents to fixed charges until March 31, 2012, our failure to perform certain covenants under the certificate of designation or the delisting of our shares of common stock) we will be prohibited from making certain restricted payments, incurring certain debt, and entering into certain agreements to purchase debt or equity interests in portfolio companies of Harbinger Capital or its affiliates (other than HGI) or to sell equity interests in portfolio companies of HGI to Harbinger Capital or its affiliates.

The holders of the Preferred Stock have certain registration rights pursuant to a Registration Rights Agreement, dated as of May 12, 2011, by and among us and the Preferred Stock Purchasers (the Preferred Registration Rights Agreement). Pursuant to the Preferred Registration Rights Agreement, we are obligated to use our commercially reasonable efforts to cause a registration statement with respect to the shares of our common stock underlying the Preferred Stock to be filed under the Securities Act by October 10, 2011 and declared effective by January 25, 2012. We have agreed to keep the registration statement effective until all of the shares of our common stock covered therein has been sold or may be sold without volume or manner of sale restrictions under Rule 144 of the Securities Act.

USE OF PROCEEDS

We will not receive any cash proceeds from the issuance of the exchange notes in exchange for the outstanding initial notes. We are making this exchange solely to satisfy our obligations under the Registration Rights Agreement. In consideration for issuing the exchange notes, we will receive initial notes in like aggregate principal amount.

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CAPITALIZATION

The following table sets forth our unaudited consolidated cash and cash equivalents, short-term investments and consolidated capitalization as of April 3, 2011:

on an actual basis;

on a pro forma basis to give effect to the Fidelity & Guaranty Acquisition, the Preferred Stock Issuance and the issuance of the initial notes

This table should be read together with Unaudited Pro Forma Condensed Combined Financial Statements, Use of Proceeds, The Fidelity & Guaranty Acquisition, The Preferred Stock Issuance and the financial statements and related notes of each of us and F&G Holdings included elsewhere in this prospectus.

	HGI as of April 3, 2011	Pro Forma as of April 3, 2011
	(In thousands)	
Cash and cash equivalents	$ 469,323	$ 518,446(8)
Short-term investments	67,928	67,928(8)
Debt:		
HGI Debt:		
HGI Senior Secured Notes due 2015 offered hereby	$	$ 150,000
HGI Senior Secured Notes due 2015(1)	350,000	350,000
Spectrum Brands Debt:		
Spectrum Brands Term Loan(2)	678,300	678,300
Spectrum Brands Senior Secured Notes(3)	750,000	750,000
Spectrum Brands Senior Subordinated Toggle Notes(4)	245,031	245,031
Spectrum Brands ABL Facility(5)	118,000	118,000
Other debt	48,442	48,442
F&G Holdings Debt:		
F&G Holdings Surplus Note(6)		95,000
Less: Original issuance net discounts on debt	(19,328)	(17,828)
Total debt	2,170,445	2,416,945
Preferred Stock(7)		205,000
Total HGI stockholders equity	636,789	632,989
Total capitalization	$ 2,807,234	$ 3,254,934

(1)

Consists of $350,000 aggregate principal amount of existing notes that were issued at a price equal to 98.587% of the principal amount thereof, with an original issue discount aggregating $4,945.

(2) On February 11, 2011, Spectrum Brands completed the refinancing of the Spectrum Brands Term Loan, which had an aggregate amount outstanding of $680,000, with an Amended and Restated Credit Agreement (the New Term Loan) at a lower interest rate. The New Term Loan was issued at par with a maturity date of June 17, 2016. Subject to certain mandatory prepayment events, the New Term Loan is subject to repayment according to a scheduled amortization, with the final payment of all amounts outstanding, plus accrued and unpaid interest, due at maturity. The New Term Loan provides for interest at a rate per annum equal to, at Spectrum Brands option, the LIBOR rate (adjusted for statutory reserves) subject to a 1.00% floor plus a margin equal to 4.00%, or an alternate base rate plus a margin equal to 3.00%.

(3) Consists of $750,000 aggregate principal amount that were issued at 1.37% discount of $10,245. Spectrum Brands may redeem all or part of the Spectrum Brands Senior Secured Notes, upon not less than 30 or more than 60 days notice, at specified redemption prices. Further, the indenture governing the Spectrum Brands Senior Secured Notes requires Spectrum Brands to make an offer, in cash, to repurchase all or a portion of the applicable outstanding notes for a specified redemption price, including a redemption

premium, upon the occurrence of a change of control of Spectrum Brands. The Spectrum Brands Senior Secured Notes mature on June 15, 2018.

(4) As of April 3, 2011, $245,031 aggregate principal amount of the Spectrum Brands Senior Subordinated Toggle Notes was outstanding (including paid in kind interest of $26,955 added to the principal amount during Fiscal 2010). As a result of the refinancing of their prior term facility, Spectrum Brands is no longer required to make interest payments as payment in kind after the semi-annual interest payment date of August 28, 2010. Effective with the semi-annual interest payment date of February 28, 2011, Spectrum Brands gave notice to the trustee that the interest payment due August 28, 2011 would be made in cash. The Spectrum Brands Senior Subordinated Toggle Notes mature in August 2019.

(5) The Spectrum Brands ABL Facility is governed by a credit agreement with the Bank of America as administrative agent. The Spectrum Brands ABL Facility consists of revolving loans, with a portion available for letters of credit and a portion available as swing line loans, in each case subject to certain terms and limits. The revolving loans may be drawn, repaid and re-borrowed without premium or penalty. The Spectrum Brands ABL Facility is due on April 21, 2016.

(6) Consists of a $95,000 aggregate principal amount note that was issued at par by the Vermont Captive, a wholly-owned subsidiary of FGL Insurance. The note carries a 6% fixed interest rate. Interest payments are subject to regulatory approval and are further restricted until all contractual obligations that the Vermont Captive has to NBI have been satisfied in full. The notes have a maturity date which is the later of December 31, 2012 or a date when all contractual obligations to NBI have been satisfied in full. NBI provides a reserve financing facility (Nomura facility) to the Vermont Captive with a notional amount of $535,000. The Nomura facility is in the form of irrevocable letters of credit. The Nomura facility rate is 1.38% per annum for the first 24 months. Under the terms of the Stock Purchase Agreement, the Nomura facility is required to be replaced on or before December 31, 2012.

(7) On May 13, 2011, HGI issued 280 shares of Preferred Stock in a private placement subject to future registration rights, pursuant to the Preferred Stock Purchase Agreement, for aggregate gross proceeds of $280,000. The Preferred Stock (i) is mandatorily redeemable in cash (or, if a holder does not elect cash, automatically converted into common stock) on the seventh anniversary of issuance, (ii) is convertible into HGI s common stock, by the holder at any time, at an initial conversion price of $6.50 per share, subject to anti-dilution adjustments, (iii) is convertible into HGI s common stock, by HGI after the third anniversary and conditioned upon the HGI stock price meeting certain thresholds (iv) is redeemable by HGI at any time after the third anniversary of the issue date, in whole but not in part, at a price per share equal to 150% of the Purchase Price plus accrued but unpaid dividends, subject to the holder s right to convert prior to such redemption, (v) has a liquidation preference of the greater of 150% of the purchase price or the value that would be received if it were converted into HGI s common stock, (vi) accrues a cumulative quarterly cash dividend at an annualized rate of 8% and (vii) has a quarterly non-cash principal accretion at an annualized rate of 4% that will be reduced to 2% or 0% if HGI achieves specified rates of growth measured by increases in its net asset value. The Preferred Stock is entitled to vote and to receive cash dividends and in-kind distributions on an as-converted basis with HGI s common stock. Fees and expenses of approximately $11,000 were incurred related to the issuance of the Preferred Stock. The conversion option, with an estimated fair value of $64,000 as of April 3, 2011, has been bifurcated and separately accounted for as a derivative liability. The preliminary estimated fair value of the conversion option as of the May 13, 2011 date of issuance was $85,000. See Note 10(b) to the Unaudited Pro Forma Condensed Combined Financial Statements for further details.

(8) Pro forma cash and cash equivalents and short-term investments exclude cash, cash equivalents and investments of the insurance operations which are segregated in a separate section of the Unaudited Pro Forma Condensed

Combined Balance Sheet included elsewhere in this prospectus, but include cash and cash equivalents of other subsidiaries, including Spectrum Brands Holdings ($73,091).

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial statements for the year ended September 30, 2010 and for the six-month period ended April 3, 2011, the date of our latest publicly available financial information, gives effect to (i) the full-period effect of the Spectrum Brands Acquisition, reflecting the full-period effect of the SB/RH Merger and the inclusion of HGI s results of operations for the period prior to the June 16, 2010 common control transaction (explained further below), (ii) the Fidelity & Guaranty Acquisition, (iii) the full-period effect of the issuance of the existing notes, (iv) the issuance of the initial notes, also referred to as the Add-on Notes and (v) the Preferred Stock Issuance.

The unaudited pro forma condensed combined financial statements shown below reflect historical financial information and have been prepared on the basis that, under ASC 805, the Spectrum Brands Acquisition was accounted for as a transaction between entities under common control, as reflected in our retrospectively adjusted consolidated financial statements referred to herein, and the Fidelity & Guaranty Acquisition is accounted for under the acquisition method of accounting. Spectrum Brands (which was the accounting acquirer and predecessor in the SB/RH Merger) was considered our accounting predecessor and the receiving entity of HGI in the Spectrum Brands Acquisition because, during the historical periods presented, Spectrum Brands was an operating business and HGI was not. Accordingly, our historical financial statements were retrospectively adjusted to reflect those of Spectrum Brands prior to the June 16, 2010 date that common control was first established over Spectrum Brands Holdings and HGI as a result of the SB/RH Merger, and the combination of Spectrum Brands Holdings and HGI thereafter. The pre-common control results of operations of HGI have been included on a pro forma basis to reflect the full period effect of the Spectrum Brands Acquisition as if it occurred on October 1, 2009, the beginning of the most recently completed fiscal year presented herein.

The following unaudited pro forma condensed combined balance sheet at April 3, 2011 is presented to reflect (i) the Fidelity & Guaranty Acquisition, (ii) the issuance of the Add-on Notes and (iii) the Preferred Stock Issuance. The issuance of the existing notes is already reflected in our historical unaudited condensed consolidated balance sheet as of April 3, 2011.

The unaudited pro forma condensed combined statement of operations for the year ended September 30, 2010 is presented to reflect (i) the full-period effect of the Spectrum Brands Acquisition, reflecting the full period effect of the SB/RH Merger and the inclusion of HGI s results of operations for the period prior to June 16, 2010, (ii) the Fidelity and Guaranty Acquisition, (iii) the issuance of the existing notes, (iv) the issuance of the Add-on Notes and (v) the Preferred Stock Issuance, as if each had occurred on October 1, 2009.

The unaudited pro forma condensed combined statement of operations for the six-month period ended April 3, 2011 is presented on a basis to reflect (i) the Fidelity and Guaranty Acquisition, (ii) the full period effect of the issuance of the existing notes, (iii) the issuance of the Add-on Notes and (iv) the Preferred Stock Issuance, as if each had occurred on October 1, 2009.

Because of different fiscal year-ends, and in order to present results for comparable periods, the unaudited pro forma condensed combined statement of operations for the fiscal year ended September 30, 2010 combines the historical condensed consolidated statement of operations of HGI for the year then ended (which includes Russell Hobbs results of operations for the most recent three-month period ended September 30, 2010) with the historical results of operations of Russell Hobbs for the nine-month period ended March 31, 2010, the last quarter end reported by Russell Hobbs prior to the SB/RH Merger, and the historical consolidated statement of operations of F&G Holdings for its fiscal year ended December 31, 2010. The results of Russell Hobbs have been excluded for the stub period from

June 16, 2010 (the date of the SB/RH Merger), to July 4, 2010 for pro forma purposes, because comparable results are included in the historical results of operations of Russell Hobbs for the nine-month period ended March 31, 2010. In addition, the unaudited pro forma condensed combined statement of operations for the six-month period ended April 3, 2011 combines the historical condensed consolidated statement of operations of HGI for the six-month period then ended with the derived results of operations of F&G Holdings for the six-month period ended December 31, 2010. The historical financial statements for F&G Holdings includes the third and fourth calendar quarters of 2010 in both the annual 2010 and interim 2011 unaudited pro forma condensed combined financial statements presented herein and excludes the historical condensed consolidated statement of operations for the three month period ended March 31, 2011. Pro forma adjustments are made in order to reflect the potential effect of the transactions indicated above on the unaudited pro forma condensed combined statements of operations.

The unaudited pro forma condensed combined financial statements and the notes to the unaudited pro forma condensed combined financial statements were based on, and should be read in conjunction with:

our retrospectively adjusted historical audited consolidated financial statements and notes thereto for the fiscal year ended September 30, 2010;

our historical unaudited condensed consolidated financial statements and notes thereto for the six-month period ended April 3, 2011;

F&G Holdings historical audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2010; and

F&G Holdings historical unaudited condensed consolidated financial statements and notes thereto for the three-month period ended March 31, 2011.

Our historical consolidated financial information has been adjusted in the unaudited pro forma condensed combined financial statements to give effect to pro forma events that are (i) directly attributable to the Spectrum Brands Acquisition, the SB/RH Merger, the Fidelity & Guaranty Acquisition, the issuance of the existing notes, the issuance of the Add-on Notes and the Preferred Stock Issuance, (ii) factually supportable, and (iii) with respect to the unaudited pro forma condensed combined statements of operations, expected to have a continuing impact on our results. The unaudited pro forma condensed combined financial statements do not reflect any of HGI s or Spectrum Brands Holdings managements expectations for revenue enhancements, cost savings from the combined company s 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 SB/RH Merger.

The pro forma adjustments are based upon available information and assumptions that the managements of HGI, Spectrum Brands Holdings and F&G Holdings, as applicable, believe reasonably reflect the Spectrum Brands Acquisition, the SB/RH Merger, the Fidelity & Guaranty Acquisition, the issuance of the existing notes, the issuance of the Add-on Notes and the Preferred Stock Issuance. The unaudited pro forma condensed combined financial statements are provided for illustrative purposes only and do not purport to represent what our actual consolidated results of operations or our consolidated financial position would have been had the Spectrum Brands Acquisition, the Fidelity & Guaranty Acquisition and other identified events occurred on the date assumed, nor are they necessarily indicative of our future consolidated results of operations or financial position.

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Harbinger Group Inc. and Subsidiaries

Unaudited Pro Forma Condensed Combined Balance Sheet
As of April 3, 2011

	Historical		Pro Forma Adjustments				
	Harbinger Group Inc.	Fidelity & Guaranty Life Holdings, Inc. (A)	Fidelity & Guaranty Acquisition	Note	Add-on Notes and Preferred Stock Issuance	Note	Pro Forma Combined
	(In thousands)						
ASSETS							
Consumer Products and Other:							
Cash and cash equivalents	$ 469,323	$	$ (367,100)	(9a)	$ 416,223	(10b,c)	$ 518,446
Short-term investments	67,928						67,928
Receivables, net	413,702						413,702
Inventories, net	561,043						561,043
Prepaid expenses and other current assets	86,546						86,546
Total current assets	1,598,542		(367,100)		416,223		1,647,665
Properties, net	202,043						202,043
Goodwill	617,724						617,724
Intangible assets, net	1,757,330						1,757,330
Deferred charges and other assets	102,044				4,277	(10c)	106,321
	4,277,683		(367,100)		420,500		4,331,083
Insurance:							
Investments:							
Fixed maturities, available-for-sale, at fair value		15,225,309	567,863	(9b)			15,793,172
Equity securities, available-for-sale, at fair value		296,201	22,250	(9b)			318,451
Derivative investments		208,527	37,006	(9c)			245,533
Other invested assets		88,831	3,790	(9d)			92,621
Total investments		15,818,868	630,909				16,449,777

Cash and cash equivalents		904,688	122,342	(9c,f)			1,027,030
Accrued investment income		210,118	7,889	(9b)			218,007
Deferred policy acquisition costs		1,516,729	(1,516,729)	(9e,g)			
Present value of in-force		62,182	528,233	(9g)			590,415
Reinsurance recoverable		1,842,924	(910,164)	(9e,j)			932,760
Deferred tax asset, net		164,820	33,953	(9h)			198,773
Other assets		59,051	13,749	(9f)			72,800
		20,579,380	(1,089,818)				19,489,562
Total assets	$ 4,277,683	$ 20,579,380	$ (1,456,918)		$ 420,500		$ 23,820,645

LIABILITIES AND EQUITY

Consumer Products and Other:							
Current portion of long-term debt	$ 31,841	$	$		$		$ 31,841
Accounts payable	253,585						253,585
Accrued and other current liabilities	292,932		(18,300)	(9a)			274,632
Total current liabilities	578,358		(18,300)				560,058
Long-term debt	2,138,604				151,500	(10c)	2,290,104
Equity conversion option of Preferred Stock					64,000	(10b)	64,000
Employee benefit obligations	97,891						97,891
Non-current deferred income taxes	304,430						304,430
Other liabilities	64,437						64,437
	3,183,720		(18,300)		215,500		3,380,920
Insurance:							
Future policy benefits		3,464,619	296,450	(9j)			3,761,069
Contractholder funds		14,960,245	(205,533)	(9e,k)			14,754,712
Liability for policy and contract claims		62,091	(1,691)	(9e)			60,400
Notes payable		248,505	(153,505)	(9f,l)			95,000
Other liabilities		493,218	(19,837)	(9f,i,l)			473,381
		19,228,678	(84,116)				19,144,562
Total liabilities	3,183,720	19,228,678	(102,416)		215,500		22,525,482
Mezzanine equity:							
Preferred stock					205,000	(10b)	205,000

Stockholders equity:						
Common stock	1,392					1,392
Additional paid-in capital	863,176	1,754,571	(1,754,571)	(9m)		863,176
Accumulated deficit	(232,329)	(425,084)	421,284	(9n)		(236,129)
Accumulated other comprehensive income	4,550	21,215	(21,215)	(9o)		4,550
Total stockholders equity	636,789	1,350,702	(1,354,502)			632,989
Noncontrolling interest	457,174					457,174
Total equity	1,093,963	1,350,702	(1,354,502)		205,000	1,295,163
Total liabilities and equity	$ 4,277,683	$ 20,579,380	$ (1,456,918)		$ 420,500	$ 23,820,645

(A) Fidelity & Guaranty Life Holdings, Inc. historical balance sheet information is as of March 31, 2011.

See accompanying notes to unaudited pro forma condensed combined financial statements.

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Harbinger Group Inc. and Subsidiaries

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended September 30, 2010

arbinger roup Inc. ear Ended tember 30, 2010	Historical Russell Hobbs, Inc. Nine Months Ended March 31, 2010	Fidelity & Guaranty Life Holdings, Inc. Year Ended December 31, 2010	Elimination of Russell Hobbs, Inc. Duplicate Information(6)	HGI Pre-Common Control for the Period from October 1, 2009 to June 15, 2010(1)	Pro Forma Adjustments: SB/RH Merger-Related and Other Adjustments	Note	Fidelity & Guaranty Acquisition	Note	Existing Notes, Add-on Notes and Preferred Stock Issuance
(Amounts in thousands, except per share amounts)									
2,567,011	$ 617,281	$	$ (35,755)	$	$		$		$
		219,970					(130,103)	(9r)	
		915,587					(95,187)	(9p,r)	
		60,117					21,128	(9r)	
		108,254					38,063	(9r)	
		1,303,928					(166,099)		
2,567,011	617,281	1,303,928	(35,755)				(166,099)		
1,645,601	422,652		(23,839)		(2,164)	(7b)			

760,956	134,432		(11,261)	9,004	(24,594)	(5a,d,e)(7a)			
2,406,557	557,084		(35,100)	9,004	(26,758)				
		862,994					(68,063)	(9r)	
		100,902					28,341	(9r)	
		273,038					(164,484)	(9q)	
		1,236,934					(204,206)		
2,406,557	557,084	1,236,934	(35,100)	9,004	(26,758)		(204,206)		
160,454	60,197	66,994	(655)	(9,004)	26,758		38,107		
277,015	24,112	25,019	(3,866)		(114,323)	(5c)	(19,240)	(9s)	56,236
12,105	5,702		923	(378)					(69,000)
(128,666)	30,383	41,975	2,288	(8,626)	141,081		57,347		12,764
3,646									
(132,312)	30,383	41,975	2,288	(8,626)	141,081		57,347		12,764
63,195	11,375	(130,122)	(214)	443	767	(5a,f)	165,344	(9t)	
(195,507)	19,008	172,097	2,502	(9,069)	140,314		(107,997)		12,764
									47,747

(195,507)	19,008	172,097	2,502	(9,069)	140,314		(107,997)	(34,983)
(46,373)				(3)	32,852	(5b)		
(149,134)	$ 19,008	$ 172,097	$ 2,502	$ (9,066)	$ 107,462		$ (107,997)	$ (34,983)
(1.13)								
132,399								

See accompanying notes to unaudited pro forma condensed combined financial statements.

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Harbinger Group Inc. and Subsidiaries

Unaudited Pro Forma Condensed Combined Statement of Operations
For the Six-Month Period Ended April 3, 2011

	Historical		Pro Forma Adjustments						
	Harbinger Group Inc. Six-Month Period Ended April 3, 2011	Fidelity & Guaranty Life Holdings, Inc. Six-Month Period Ended December 31, 2010(1)	Fidelity & Guaranty Acquisition	Note	Existing Notes, Add-on Notes and Preferred Stock Issuance	Note	Other Adjustments	Note	Pro Forma Combined
	(Amounts in thousands, except per share amounts)								
Revenues:									
Consumer Products and Other:									
Net sales	$ 1,554,952	$	$		$		$		$ 1,554,952
Insurance:									
Premiums		106,629	(72,018)	(9r)					34,611
Net investment income		457,083	(50,420)	(9p,r)					406,663
Net investment gains		100,148	26,922	(9r)					127,070
Insurance and investment product fees and other		53,495	18,457	(9r)					71,952
		717,355	(77,059)						640,296
Total revenues	1,554,952	717,355	(77,059)						2,195,248
Operating costs and expenses:									
Consumer Products and Other:									
	1,000,274								1,000,274

Cost of goods sold									
Selling, general and administrative expenses	467,554						(22,644)	(5e,7a)	444,910
	1,467,828						(22,644)		1,445,184
Insurance:									
Benefits and other changes in policy reserves		476,014	(13,165)	(9r)					462,849
Acquisition and operating expenses, net of deferrals		51,151	911	(9r)					52,062
Amortization of deferred acquisition costs and intangibles		193,465	(124,236)	(9q)					69,229
		720,630	(136,490)						584,140
Total operating costs and expenses	1,467,828	720,630	(136,490)				(22,644)		2,029,324
Operating income (loss)	87,124	(3,275)	59,431				22,644		165,924
Interest expense	140,747	12,738	(9,825)	(9s)	13,034	(10a,c)			156,694
Other expense (income), net	37				(12,000)	(10b)			(11,963)
Loss from continuing operations before income taxes	(53,660)	(16,013)	69,256		(1,034)		22,644		21,193
Income tax expense	60,186	10,681	9,515	(9t)					80,382
Net loss from continuing operations	(113,846)	(26,694)	59,741		(1,034)		22,644		(59,189)
Preferred stock dividends and accretion					24,829	(10b)			24,829
Net loss from continuing	(113,846)	(26,694)	59,741		(25,863)		22,644		(84,018)

operations attributable to common stockholders						
Less: Loss from continuing operations attributable to noncontrolling interest	(31,826)					(31,826)
Net loss from continuing operations attributable to controlling interest	$ (82,020)	$ (26,694)	$ 59,741	$ (25,863)	$ 22,644	$ (52,192)
Loss from continuing operations per share attributable to controlling interest:						
Basic and diluted	$ (0.59)					$ (0.37)
Weighted average shares:						
Basic and diluted	139,200					139,200

See accompanying notes to unaudited pro forma condensed combined financial statements.

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Harbinger Group Inc. and Subsidiaries

Notes to the Unaudited Pro Forma Condensed Combined Financial Statements
(Amounts in thousands, except per share amounts)

(1) CONFORMING PERIODS

The historical results of operations for HGI reflected in the Unaudited Pro Forma Condensed Combined Statement of Operations for the year ended September 30, 2010 reflect the results of Spectrum Brands prior to June 16, 2010 and the combined results of Spectrum Brands Holdings and HGI thereafter. The following calculation derives HGI s results of operations for the period from October 1, 2009 to June 15, 2010:

	Year Ended December 31, 2009	*Less:* Nine-Month Period Ended September 30, 2009	*Add:* Six-Month Period Ended June 30, 2010	*Less:* Period from June 16, 2010 to July 4, 2010	Period from October 1, 2009 to June 15, 2010 Total
			(In thousands)		
Net sales	$	$	$	$	$
Cost of goods sold					
Gross profit					
Selling, general and administrative expenses	6,290	3,775	7,073	584	9,004
Operating loss	(6,290)	(3,775)	(7,073)	(584)	(9,004)
Interest expense					
Other income, net	(1,509)	(1,443)	(443)	(131)	(378)
Loss from continuing operations before income taxes	(4,781)	(2,332)	(6,630)	(453)	(8,626)
Provision (benefit) for income taxes	8,566	7,356	(767)		443
Net loss	(13,347)	(9,688)	(5,863)	(453)	(9,069)
Less: Net loss attributable to noncontrolling interest	(3)	(2)	(2)		(3)
Net loss attributable to controlling interest	$ (13,344)	$ (9,686)	$ (5,861)	$ (453)	$ (9,066)

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Harbinger Group Inc. and Subsidiaries

Notes to the Unaudited Pro Forma Condensed Combined Financial Statements (Continued)

F&G Holdings fiscal year-end is December 31, 2010. In order for the Unaudited Pro Forma Condensed Combined Statement of Operations for the interim six-month period ended April 3, 2011 to be comparable, we have derived the results of operations of F&G Holdings for the six-month period ended December 31, 2010 as follows:

	Year Ended December 31, 2010	*Less:* Six-Month Period Ended June 30, 2010	Six-Month Period Ended December 31, 2010
Revenues:			
Premiums	$ 219,970	$ 113,341	$ 106,629
Net investment income	915,587	458,504	457,083
Net investment gains (losses)	60,117	(40,031)	100,148
Insurance and investment product fees and other	108,254	54,759	53,495
Total revenues	1,303,928	586,573	717,355
Operating costs and expenses:			
Benefits and other changes in policy reserves	862,994	386,980	476,014
Acquisition and operating expenses, net of deferrals	100,902	49,751	51,151
Amortization of deferred acquisition costs and intangibles	273,038	79,573	193,465
Total operating costs and expenses	1,236,934	516,304	720,630
Operating income (loss)	66,994	70,269	(3,275)
Interest expense, net	25,019	12,281	12,738
Income (loss) from continuing operations before income taxes	41,975	57,988	(16,013)
Income tax (benefit) expense	(130,122)	(140,803)	10,681
Net income (loss)	$ 172,097	$ 198,791	$ (26,694)

(2) BASIS OF PRO FORMA PRESENTATION

The unaudited pro forma condensed combined financial statements have been prepared using the historical consolidated financial statements of HGI, Russell Hobbs and F&G Holdings. The Spectrum Brands Acquisition was accounted for as a merger among entities under common control, with Spectrum Brands as the accounting predecessor and the receiving entity of HGI. Because the period in which the entities were under common control began on June 16, 2010, the pre-common control HGI results of operations are included on a pro forma basis to reflect the full-period effect of the Spectrum Brands Acquisition as if it occurred on October 1, 2009, the beginning of the most recently completed fiscal year presented herein. The Fidelity & Guaranty Acquisition is accounted for using the acquisition method of accounting.

(3) SIGNIFICANT ACCOUNTING POLICIES

The unaudited pro forma condensed combined financial statements of HGI do not assume any differences in accounting policies between HGI and F&G Holdings. HGI will further review the accounting policies of HGI and F&G Holdings to ensure conformity of such accounting policies on a consolidated basis and, as a result of that review, HGI may identify differences between the accounting policies of these companies that, when conformed, could have a material impact on the combined financial statements. At this time, HGI is not aware of any differences that would have a material impact on the unaudited pro forma condensed combined financial statements.

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Harbinger Group Inc. and Subsidiaries

Notes to the Unaudited Pro Forma Condensed Combined Financial Statements (Continued)

(4) ACQUISITION OF RUSSELL HOBBS BY SPECTRUM BRANDS IN SB/RH MERGER

Russell Hobbs was acquired by Spectrum Brands Holdings as a result of the SB/RH Merger on June 16, 2010. The consideration was in the form of newly-issued shares of common stock of Spectrum Brands Holdings exchanged for all of the outstanding shares of common and preferred stock and certain debt of Russell Hobbs held by the Harbinger Parties. Inasmuch as Russell Hobbs was a private company and its common stock was not publicly traded, the closing market price of the Spectrum Brands common stock at June 15, 2010 was used to calculate the purchase price. The total purchase price of Russell Hobbs was approximately $597,579 determined as follows:

Spectrum Brands closing price per share on June 15, 2010	$ 28.15
Purchase price Russell Hobbs allocation 20,704 shares(1)(2)	$ 575,203
Cash payment to pay off Russell Hobbs North American credit facility	22,376
Total purchase price of Russell Hobbs	$ 597,579

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

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

The total purchase price for Russell Hobbs was allocated to the preliminary net tangible and intangible assets of Russell Hobbs by Spectrum Brands Holdings based upon their preliminary fair values at June 16, 2010 and is reflected in Spectrum Brands Holdings historical consolidated statement of financial position as of September 30, 2010 as set forth below. The excess of the purchase price over the preliminary net tangible assets and intangible assets was recorded as goodwill. The preliminary allocation of the purchase price was based upon a valuation for which the estimates and assumptions are subject to change within the measurement period (up to one year from the acquisition date). The primary areas of the preliminary purchase price allocation that are not yet finalized relate to 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 the final allocation of goodwill. Spectrum Brands Holdings expects to continue to obtain information to assist it in determining the fair values of the net assets acquired at the acquisition date during the measurement period.

The preliminary purchase price allocation for Russell Hobbs is as follows:

Current assets	$ 307,809
Property, plant and equipment	15,150
Intangible assets	363,327
Goodwill(1)	120,079

Other assets	15,752
Total assets acquired	822,117
Current liabilities	142,046
Total debt	18,970
Long-term liabilities(2)	63,522
Total liabilities assumed	224,538
Net assets acquired	$ 597,579

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Harbinger Group Inc. and Subsidiaries

Notes to the Unaudited Pro Forma Condensed Combined Financial Statements (Continued)

(1) Consists of $25,426 of tax deductible goodwill.

(2) Represents indebtedness of Russell Hobbs assumed in the SB/RH Merger.

(5) PRO FORMA ADJUSTMENTS SPECTRUM BRANDS ACQUISITION, SB/RH MERGER AND OTHER ADJUSTMENTS

(a) Adjustments were made to income taxes and pension expense to reflect the effect of rolling back the Harbinger Parties basis in HGI to October 1, 2009 (the assumed transaction date for purposes of the unaudited condensed combined pro forma statement of operations). This resulted in a decrease in selling, general and administrative expense for pension expense in the amount of $642 for the year ended December 31, 2010. Similarly, the tax adjustment is as shown in the unaudited pro forma condensed combined statement of operations for the year ended September 30, 2010, included herein.

(b) HGI owns approximately 54.5% of the outstanding Spectrum Brands Holdings common stock subsequent to the Spectrum Brands Acquisition. This adjustment reflects the 45.5% noncontrolling interest in the results of Spectrum Brands and Russell Hobbs for the portion of the year prior to the June 16, 2010 date of common control, upon which the noncontrolling interest was initially established for purposes of HGI s retrospectively adjusted consolidated financial statements, as well as the effect of the pro forma adjustments related to the SB/RH Merger.

(c) The SB/RH Merger resulted in a substantial change to the Spectrum Brands Holdings debt structure, as further discussed in the notes to HGI s retrospectively adjusted historical audited consolidated financial statements. The change in interest expense is $114,323 for the year ended September 30, 2010. The adjustment consists of the following:

	Assumed Interest Rate	Pro forma Interest Expense
Spectrum Brands Term Loan	8.1%	$ 60,750
Spectrum Brands Senior Secured Notes	9.5%	71,250
Spectrum Brands Senior Subordinated Toggle Notes	12.0%	27,739
Spectrum Brands ABL Facility	6.0%	2,110
Foreign debt, other obligations and capital leases		8,832
Amortization of debt issuance costs and discounts		12,257
Total pro forma interest expense		**182,938**
Less: elimination of historical interest expense		297,261
Pro forma adjustment		**$ (114,323)**

An assumed increase or decrease of 1/8 percent in the interest rate assumed above with respect to the $750,000 Spectrum Brands Term Loan and the Spectrum Brands ABL Facility (with an assumed $22,000 average principal balance outstanding), which have variable interest rates, would impact total pro forma interest expense by $965 for the year ended September 30, 2010.

(d) Adjustment reflects increased amortization expense associated with the fair value adjustment of Russell Hobbs intangible assets of $10,430 for the year ended September 30, 2010. This reflects an adjustment to the Russell Hobbs historical nine-month period ended March 31, 2010 only (the last reported period prior to the SB/RH Merger), as the Russell Hobbs acquisition is already reflected in HGI s results of operations for the last three months of HGI s year ended September 30, 2010.

Harbinger Group Inc. and Subsidiaries

Notes to the Unaudited Pro Forma Condensed Combined Financial Statements (Continued)

(e) Adjustment reflects an increase in equity awards amortization of $4,577 for the year ended September 30, 2010 and a decrease in equity awards amortization of $3,411 for the six-month period ended April 3, 2011, respectively, to reflect equity awards issued in connection with the SB/RH Merger which had vesting periods ranging from 1-12 months. As a result, assuming the transaction was completed on October 1, 2009, these awards would be fully vested in the period ended September 30, 2010. For purposes of this pro forma adjustment, fair value is assumed to be the average of the high and low price of Spectrum Brands common stock at June 16, 2010 of $28.24 per share, management s most reliable determination of fair value.

(f) As a result of Russell Hobbs and Spectrum Brands existing income tax loss carryforwards in the United States, for which full valuation allowances have been provided, no deferred income taxes have been established and no income tax has been provided in the pro forma adjustments related to the SB/RH Merger.

(6) PRO FORMA ADJUSTMENT ELIMINATION OF DUPLICATE FINANCIAL INFORMATION

This pro forma adjustment represents the elimination of the financial data from June 16, 2010 through July 4, 2010 of Russell Hobbs that is reflected in HGI s historical financial statements. These are considered duplicative because a full twelve months of financial results for Russell Hobbs has been reflected in the unaudited condensed combined pro forma statement of operations consisting of the nine-month Russell Hobbs historical period ended March 31, 2010, prior to the SB/RH Merger, and the three-month period ended September 30, 2010, subsequent to the SB/RH Merger, included in HGI s historical column.

(7) NON-RECURRING COSTS

(a) HGI s financial results for the year ended September 30, 2010 include $34,675 of expenses related to the SB/RH Merger. These costs include fees for legal, accounting, financial advisory, due diligence, tax, valuation, printing and other various services necessary to complete this transaction and were expensed as incurred. These costs have been excluded from the unaudited pro forma condensed combined statement of operations as these amounts are considered non-recurring. HGI s unaudited pro forma condensed combined statements of operations for the year ended September 30, 2010 and the six-month period ended April 3, 2011 also exclude $4,284 and $933, respectively, related to the Spectrum Brands Acquisition, as these costs are also considered non-recurring. In addition, HGI s unaudited pro forma condensed combined statement of operations excludes $18,300 for the six-month period ended April 3, 2011 related to the Fidelity & Guaranty Acquisition, as these costs are considered non-recurring.

(b) Spectrum Brands Holdings increased Russell Hobbs inventory by $2,504, to estimated fair value, upon completion of the SB/RH Merger. Cost of sales increased by this amount during the first inventory turn subsequent to the completion of the SB/RH Merger. $340 was recorded in the three-month period ended July 4, 2010 and has been eliminated as part of the Elimination of duplicate financial information adjustments discussed in Note 6 above. The remaining $2,164 was recorded in the three-month period ended September 30, 2010, which amount has been eliminated as a pro forma adjustment related to the SB/RH Merger. These costs have been excluded from the unaudited pro forma condensed combined statement of operations as they are considered non-recurring.

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Notes to the Unaudited Pro Forma Condensed Combined Financial Statements (Continued)

(8) FIDELITY & GUARANTY ACQUISITION

For the purposes of these unaudited pro forma condensed combined financial statements, HGI made a preliminary allocation of the estimated purchase price to the net assets acquired, as if the Fidelity & Guaranty Acquisition had closed on April 3, 2011, as follows:

Investments, cash and accrued investment income	$ 17,694,814
Intangible assets (present value of in-force)	590,415
Reinsurance recoverable	932,760
Deferred income taxes	198,773
Other assets	72,800
Total assets acquired	19,489,562
Future policy benefits	3,761,069
Contractholder funds	14,754,712
Liability for policy and contract claims	60,400
Note payable	95,000
Other liabilities	473,381
Total liabilities assumed	19,144,562
Total preliminary purchase price allocation	345,000
Amount re-characterized as expense (See Note 9(a) below)	5,000
Contractual cash purchase price	$ 350,000

Under ASC 805, the Fidelity & Guaranty Acquisition is accounted for under the acquisition method of accounting. The acquisition method of accounting uses the fair value concepts defined in ASC Topic 820, Fair Value Measurements and Disclosures. ASC 805 requires, among other things, that most assets acquired and liabilities assumed in a business purchase combination be recognized at their fair values as of the Fidelity & Guaranty Acquisition date. The process for estimating the preliminary fair values of identifiable intangible assets, including the present value of in-force, certain tangible assets and certain liabilities requires the use of significant estimates and assumptions by management, including estimating future cash flows and developing appropriate discount rates. Under ASC 805, transaction costs are not included as a component of consideration transferred and are expensed as incurred. The excess of the purchase price (consideration transferred), if any, over the preliminary estimated amounts of identifiable assets and liabilities of F&G Holdings as of the effective date of the acquisition will be allocated to goodwill in accordance with ASC 805. The preliminary purchase price allocation above resulted in no allocation to goodwill. The preliminary purchase price allocation is subject to completion of the analysis of the fair value of the assets and liabilities of F&G Holdings as of the effective date of the Fidelity & Guaranty Acquisition. Accordingly, the purchase price allocation in the unaudited pro forma condensed combined financial statements is preliminary and will be adjusted upon completion of the final valuation. These adjustments could be material and could possibly result in a bargain purchase gain. The final valuation is expected to be completed as soon as practicable, but no later than one year from the consummation of the acquisition on April 6, 2011. F&G Holdings believes the preliminary fair values assigned to the assets to be acquired and liabilities to be assumed are based on reasonable estimates and assumptions based on data currently available.

Harbinger Group Inc. and Subsidiaries

Notes to the Unaudited Pro Forma Condensed Combined Financial Statements (Continued)

(9) PRO FORMA ADJUSTMENTS FIDELITY & GUARANTY ACQUISITION

The following pro forma adjustments are made to reflect the preliminary purchase price allocation and other transactions directly related to the Fidelity & Guaranty Acquisition:

(a) Adjustment reflects the cash purchase price of $350,000 for the Fidelity & Guaranty Acquisition plus costs associated with closing the transaction of $22,100 of which $18,300 was accrued for as of April 3, 2011. For purposes of the preliminary purchase price allocation set forth in Note (8) above, the $350,000 cash purchase price paid by HGI has been reduced by a $5,000 expense reimbursement made by the seller to the Harbinger Parties, thereby effectively re-characterizing $5,000 of HGI s purchase price payment as expense.

(b) Adjustments of $567,863, $22,250 and $7,889 represent adjustments of $590,113 to available-for-sale securities and $7,889 to accrued investment income, respectively, transferred to F&G Holdings from OM Ireland as part of the transaction. The life business ceded to OM Ireland was recaptured as part of the transaction.

(c) Adjustments of $37,006 and $27,342 represent the derivative investments and cash and cash equivalents, respectively, transferred to F&G Holdings from OM Ireland as part of the transaction. The life business ceded to OM Ireland was recaptured as part of the transaction.

(d) Adjustment of $3,790 is to increase the carrying value of F&G Holdings policy loans based on current assumptions.

(e) Adjustments of $(929,284) to remove the reinsurance recoverable related to the business recaptured from OM Ireland, $215,628 to reflect unamortized deferred acquisition costs transferred from OM Ireland as part of the transaction, and $(15,029) and $(1,691) to reflect effects of assumed liabilities related to the business recaptured from OM Ireland. The life business ceded to OM Ireland was recaptured as part of the transaction.

(f) Adjustments of $13,749 to reflect a reserve facility structuring fee related to the retrocession of the life business recaptured from OM Ireland to a newly formed reinsurance subsidiary, $19,135 to reflect liabilities consisting of the $13,749 structuring fee and $5,386 for the life business recaptured from OM Ireland, and $95,000 to reflect a note payable issued by the newly formed reinsurance company to provide initial capitalization of the reinsurance company. The structuring fee will be capitalized and amortized over the life of the reserve facility.

(g) Adjustments of $(1,732,357) for the purchase accounting related to the elimination of the historical deferred acquisition costs (DAC) and the historical present value of in-force (PVIF) of $62,182 and the establishment of PVIF of $590,415 resulting from purchase accounting for the transaction. The PVIF reflects the estimated fair value of the in-force contracts and represents the portion of the purchase price that is allocated to the value of the right to receive future cash flows from the life insurance and annuity contracts in-force at the acquisition date. PVIF is based on actuarially determined projections, by each line of business, of future policy and contract charges, premiums, mortality and morbidity, surrenders, operating expenses, investment returns and other factors. Actual experience of the purchased business may vary materially from these projections.

PVIF is amortized in relation to estimated gross profits or premiums, depending on product type. The net adjustment to amortization as a result of eliminating the historical DAC and establishing the PVIF is reflected in adjustment (q) below.

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Notes to the Unaudited Pro Forma Condensed Combined Financial Statements (Continued)

(h) Adjustment of $33,953 is the increase in the deferred tax asset as a result of the changes to the assets and liabilities in purchase accounting. The resulting net deferred tax asset of $198,773 consists of a gross deferred tax (net of deferred tax liabilities) of $659,633 less a valuation allowance of $460,860.

(i) Adjustment of $1,000 represents adjustment to increase other liabilities for costs incurred prior to the acquisition date but not accrued in the historical balance sheet.

(j) Adjustment of $296,450 represents the increase to the carrying value of F&G Holdings liability for future policy benefits based on current assumptions, including business recaptured from OM Ireland. Adjustment of $19,120 is to increase reinsurance recoverables for a portion of the increase in carrying value for future policy liabilities ceded to reinsurers.

(k) Adjustment of $(190,504) represents the decrease in the carrying value of F&G Holdings contractholder funds based on current assumptions.

(l) Adjustments of $(39,972) to adjust historical balance of deferred reinsurance gains to a fair value of $0 and $(248,505) to reflect the push down of the seller s basis in the note payable assigned to the acquirer, which is eliminated in consolidation.

(m) Adjustment of $(1,754,571) represents the elimination of the historical paid-in capital of F&G Holdings.

(n) Adjustment of $421,284 represents the elimination of the historical accumulated deficit of F&G Holdings of $425,084 and the adjustment for unaccrued expenses associated with closing the transaction of $(3,800) reflected in adjustment (a) above.

(o) Adjustment of $(21,215) to eliminate the historical balance of F&G Holdings in accumulated other comprehensive income.

(p) Adjustment of $(90,416) for the year ended December 31, 2010 includes the amortization of the premium on fixed maturity securities available for sale of F&G Holdings, resulting from the fair value adjustment of these assets as of April 6, 2011.

The adjustment of $(45,208) for the six-month period ended December 31, 2010 includes the amortization of the premium on fixed maturity securities available for sale of F&G Holdings, resulting from the fair value adjustment of these assets as of April 6, 2011.

(q) Adjustment of $(164,484) for the year ended December 31, 2010 for the reversal of the historical deferred acquisition cost amortization of $(273,038) and the amortization of the PVIF under purchase accounting of $108,554.

For the six-month period ended December 31, 2010, the adjustment of $(124,236) is for the reversal of the historical deferred acquisition cost amortization of $(193,465) and the amortization of the PVIF under purchase accounting of $69,229.

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Notes to the Unaudited Pro Forma Condensed Combined Financial Statements (Continued)

(r) Adjustments to reflect the income statement impacts of the recapture of the life business from OM Ireland and the retrocession of the majority of the recaptured business and the reinsurance of certain life business previously not reinsured to an unaffiliated third party reinsurer that was contemplated by HGI as part of the transaction, as follows:

The table below displays the adjustments for the year ended December 31, 2010:

Premiums	$ (130,103)
Net investment income	(4,771)
Net investment gains/(losses)	21,128
Insurance and investment product fees and other	38,063
Benefits	(68,063)
Acquisition and operating expenses, net of deferrals	28,341

The table below displays the adjustments for the six-month period ended December 31, 2010:

Premiums	$ (72,018)
Net investment income	(5,212)
Net investment gains/(losses)	26,922
Insurance and investment product fees and other	18,457
Benefits	(13,165)
Acquisition and operating expenses, net of deferrals	911

(s) Adjustments of $(19,240) and $(9,825) for the year ended December 31, 2010 and the six-month period ended December 31, 2010, respectively, to eliminate interest expense of $25,019 and $12,738, respectively, on the note payable referenced in note (l) above and to add interest expense of $5,779 and $2,913, respectively, on the subordinated notes payable referenced in note (f) above.

(t) Adjustment of $165,344 for the year ended December 31, 2010 represents (i) the reversal of a $145,276 income tax benefit component of F&G Holdings historical income tax benefit attributable to a change in valuation allowance for deferred tax assets, which likely would not have been reflected in operations if purchase accounting had been applied as of January 1, 2010, and (ii) the $20,068 income tax effect of all pro forma consolidated statement of income adjustments relating to F&G Holdings using the Federal income tax rate of 35%.

For the six-month period ended December 31, 2010, the adjustment of $9,515 represents (i) the increase of a $(14,724) income tax benefit component of F&G Holdings historical income tax benefit attributable to a change in valuation allowance for deferred tax assets, which would not have been reflected in operations if purchase accounting had been applied as of October 1, 2010, and (ii) the $24,239 income tax effect of all pro forma consolidated statement of income adjustments relating to F&G Holdings using the Federal income tax rate of 35%.

(10) PRO FORMA ADJUSTMENTS NOTES AND PREFERRED STOCK ISSUANCES

(a) On November 15, 2010, HGI issued the existing notes ($350,000 aggregate principal amount of 10.625% Senior Secured Notes due November 15, 2015). The issue price of the existing notes was 98.587% of par, reflecting an original issue discount aggregating $4,945, and HGI incurred debt issuance costs of $11,618.

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Notes to the Unaudited Pro Forma Condensed Combined Financial Statements (Continued)

The incremental interest expense related to the issuance of the existing notes for the year ended September 30, 2010 was calculated as follows:

Interest expense on notes at 10.625%	$ 37,188
Amortization of original issue discount on notes	789
Amortization of debt issuance costs	1,833
Pro forma adjustment	$ 39,810

The incremental interest expense related to the issuance of the existing notes for the six-month period ended April 3, 2011 was calculated as follows:

Interest expense on notes at 10.625%	$ 18,594
Amortization of original issue discount on notes	428
Amortization of debt issuance costs	998
Total pro forma interest expense	20,020
Less: Elimination of historical interest expense	15,222
Pro forma adjustment	$ 4,798

(b) On May 13, 2011, HGI issued 280 shares of Preferred Stock in a private placement subject to future registration rights, pursuant to the Preferred Stock Purchase Agreement, for aggregate gross proceeds of $280,000. The Preferred Stock (i) is mandatorily redeemable in cash (or, if a holder does not elect cash, automatically converted into common stock) on the seventh anniversary of issuance, (ii) is convertible into HGI s common stock, by the holder at any time, at an initial conversion price of $6.50 per share, subject to anti-dilution adjustments, (iii) is convertible into HGI s common stock, by HGI after the third anniversary and conditioned upon the HGI stock price meeting certain thresholds (iv) is redeemable by HGI at any time after the third anniversary of the issue date, in whole but not in part, at a price per share equal to 150% of the Purchase Price plus accrued but unpaid dividends, subject to the holder s right to convert prior to such redemption, (v) has a liquidation preference of the greater of 150% of the purchase price or the value that would be received if it were converted into HGI s common stock, (vi) accrues a cumulative quarterly cash dividend at an annualized rate of 8% and (vii) has a quarterly non-cash principal accretion at an annualized rate of 4% that will be reduced to 2% or 0% if HGI achieves specified rates of growth measured by increases in its net asset value. The Preferred Stock is entitled to vote and to receive cash dividends and in-kind distributions on an as-converted basis with HGI s common stock. Fees and expenses of approximately $11,000 were incurred related to the Preferred Stock Issuance.

If HGI issues certain equity securities at a price lower than the conversion price of the Preferred Stock, the conversion price is adjusted to the price share of the newly issued equity securities (a down round provision). Therefore, in accordance with the guidance in ASC 815, Derivatives and Hedging, this conversion option requires bifurcation and must be separately accounted for as a derivative liability at fair value with any changes in fair value reported in current earnings. For periods in which pro forma financial information is presented, HGI used the stated conversion price applicable at issuance date in May 2011 to estimate the value of the same option in prior periods where HGI s share price might be greater than the conversion price (that is, the option may be in-the-money). HGI valued the conversion feature using volatility assumptions consistent with its stock-based compensation arrangements, credit assumptions consistent with its existing debt profile relative to the ranking of the preferred shares, and assumed holders would not convert prior to the mandatory redemption date on the seventh anniversary. HGI also presumed that it would not issue equity at a price less than the current conversion price. The consideration of these and other features of the instrument may significantly impact the value of the conversion option.

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Harbinger Group Inc. and Subsidiaries

Notes to the Unaudited Pro Forma Condensed Combined Financial Statements (Continued)

In order to determine the unaudited pro forma condensed combined statements of operations impact of changes in the fair value of the bifurcated conversion option, HGI calculated the estimated fair value of the bifurcated conversion option presuming the instrument was issued on October 1, 2009. The estimated fair values as of October 1, 2009, September 30, 2010 and April 3, 2011 were determined to be $113,000, $44,000 and $32,000, respectively. As a result, HGI recorded changes in fair value of $69,000 and $12,000 for the year ended September 30, 2010 and the six-month period ended April 3, 2011, respectively. The preliminary estimate of the fair value of the bifurcated option is $85,000 as of May 13, 2011.

For the purposes of the unaudited pro forma financial statements, HGI reflected preferred dividend and accretion expense as follows:

	Year Ended September 30, 2010	Six-Month Period Ended April 3, 2011
Cash dividends at 8% fixed rate	$ 22,738	$ 11,713
Paid-in kind dividend at assumed rate of 4%	11,369	5,857
Accretion of mezzanine equity(1)	13,640	7,259
	$ 47,747	$ 24,829

(1) The accretion expense is calculated based on the residual value of the host contract after subtracting the fair value of the bifurcated option on October 1, 2009.

For the unaudited pro forma condensed combined balance sheet as at April 3, 2011, HGI recorded an estimate of the fair value of the bifurcated conversion option of $64,000 which assumes the instrument had been issued on that date. The residual $205,000 value of the host contract, net of $11,000 of issuance costs, has been classified as mezzanine equity as the securities are redeemable at the option of the holder and upon the occurrence of an event that is not solely within the control of the issuer and is being accreted using the effective interest method over its contractual/expected life of seven years.

The Preferred Stock does not have an obligation to share in the losses of HGI. Therefore, the Preferred Stock has not been included in the computation of basic EPS under the two-class method.

(c) On June 28, 2011 HGI issued the Add-on Notes ($150,000 aggregate principal amount of 10.625% Senior Secured Notes due November 15, 2015). The issue price of the Add-on Notes was 101% of par, reflecting an original issue premium aggregating $1,500, and HGI incurred debt issuance costs of $4,277.

The incremental interest expense related to the Add-On Notes for the year ended September 30, 2010 was calculated as follows:

Interest expense on the Add-on Notes at 10.625%	$ 15,938
Amortization of original issue premium on notes	(277)
Amortization of debt issuance costs	765
Pro forma adjustment	**$ 16,426**

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Notes to the Unaudited Pro Forma Condensed Combined Financial Statements (Continued)

The incremental interest expense related to the Add-On Notes for the six-month period ended April 3, 2011 was calculated as follows:

Interest expense on Add-on Notes at 10.625%	$ 7,969
Amortization of original issue premium on notes	(150)
Amortization of debt issuance costs	417
Pro forma adjustment	**$ 8,236**

As a result of HGI s existing income tax loss carryforwards, for which valuation allowances have been provided, no income tax benefit has been reflected in the pro forma adjustments related to HGI for the year ended September 30, 2010 and the six-month period ended April 3, 2011, respectively.

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SELECTED FINANCIAL DATA

The following table sets forth certain selected historic financial information for the periods and as of the dates presented and should be read in conjunction with our accompanying consolidated financial statements and the related notes thereto included elsewhere in this prospectus and with Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. All amounts are in millions, except for per share amounts and ratios.

	Predecessor				Successor			
							Six Months Ended	
	2006	2007	2008	Period from October 1, 2008 through August 30, 2009	Period from August 31, 2009 through September 30, 2009	2010(1)	April 4, 2010	April 3 2011
ome Statement a:								
sales	$ 2,228.5	$ 2,332.7	$ 2,426.6	$ 2,010.6	$ 219.9	$ 2,567.0	$ 1,124.5	$ 1,555
ss profit	871.2	876.7	920.1	751.8	64.4	921.4	394.1	554
erating income s)(2)	(289.1)	(251.8)	(684.6)	156.8	0.1	160.5	64.5	87
ss) income from tinuing operations	(431.5)	(563.0)	(905.3)	1,100.7	(71.2)	(195.5)	(76.5)	(113
ss) income from ontinued operations, of tax(3)	(2.5)	(33.7)	(26.2)	(86.8)	0.4	(2.7)	(2.8)	
(loss) ome(4)(5)(6)(7)(8)	(434.0)	(596.7)	(931.5)	1,013.9	(70.8)	(198.2)	(79.3)	(113
(loss) income butable to controlling rest(4)(5)(6)(7)(8)	(434.0)	(596.7)	(931.5)	1,013.9	(70.8)	(151.9)	(79.3)	(82
tructuring and related rges								
t of goods sold(9)	$ 21.1	$ 31.3	$ 16.5	$ 13.2	$ 0.2	$ 7.1	$ 3.6	$ 2
erating expenses(9)	33.6	66.7	22.8	30.9	1.6	17.0	8.2	8
rest expense(10)	175.9	255.8	229.0	172.9	17.0	277.0	97.9	140
rganization items ome (expense)(11)				1,142.8	(4.0)	(3.6)		
Share Data:								
(loss) income per nmon share:								
ic and diluted	$ (8.77)	$ (11.72)	$ (18.29)	$ 19.76	$ (0.55)	$ (1.15)	$ (0.61)	$ (0.
ghted average shares standing:								
ic and diluted(12)	49.5	50.9	50.9	51.3	129.6	132.4	129.6	139

h Flow and Related a:								
cash provided by ed in) operating vities	$ 44.5	$ (32.6)	$ (10.2)	$ 1.6	$ 75.0	$ 51.2	$ (81.0)	$ (134
ital expenditures(13)	55.6	23.2	18.9	8.1	2.7	40.4	10.8	18
preciation and ortization (excluding ortization of debt ance costs)(13)	82.6	77.4	85.0	58.5	8.6	117.5	52.5	66
ance Sheet Data (at iod end):								
h and cash ivalents	$ 28.4	$ 69.9	$ 104.8		$ 97.8	$ 256.8	$ 55.5	$ 469
rking capital(14)	397.2	370.2	371.5		323.7	673.7	304.2	1,020
al assets	3,549.3	3,211.4	2,247.5		3,020.7	4,016.2	2,901.0	4,277
al long-term debt, net urrent portion	2,234.5	2,416.9	2,474.8		1,530.0	1,723.1	1,520.6	2,138
al debt	2,277.2	2,460.4	2,523.4		1,583.5	1,743.8	1,626.9	2,170
al stockholders equity ficit)	452.2	(103.8)	(1,027.2)		660.9	701.7	575.0	636
er Data:								
io of earnings to fixed rges				7.2				
iciency of earnings s) to fixed charges	$ (460.9)	$ (507.2)	$ (914.8)		$ (20.0)	$ (132.3)	$ (44.0)	$ (53

(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 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.

(2) During Fiscal 2006, 2007, 2008, 2009 and 2010, pursuant to the Financial Accounting Standards Board Codification Topic 350: *Intangibles-Goodwill and Other,* Spectrum Brands conducted 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 $433 million, $362 million, $861 million and $34 million in Fiscal 2006, Fiscal 2007, Fiscal 2008 and the period from October 1, 2008 through August 30, 2009, respectively. See Note 6, Goodwill and Intangibles, of Notes to Consolidated Financial Statements included elsewhere in this prospectus for further details on these impairment charges.

(3) Fiscal 2007 loss from discontinued operations, net of tax, includes a non-cash pretax impairment charge of approximately $45 million to reduce the carrying value of certain assets, principally consisting of goodwill and intangible assets, relating to Spectrum Brands Canadian Division of the growing products business in order to reflect the estimated fair value of this business. Fiscal 2008 loss from discontinued operations, net of tax, includes a non-cash pretax impairment charge of approximately $8 million to reduce the carrying value of intangible assets relating to our growing products business in order to reflect the estimated fair value of this business. See Note 9, Discontinued Operations, of Notes to Consolidated Financial Statements included elsewhere in this prospectus for information relating to these impairment charges.

(4) Fiscal 2006 income tax benefit of $29 million includes a non-cash charge of approximately $29 million which increased the valuation allowance against certain net deferred tax assets.

(5) Fiscal 2007 income tax expense of $56 million includes a non-cash charge of approximately $180 million which increased the valuation allowance against certain net deferred tax assets.

(6) Fiscal 2008 income tax benefit of $10 million includes a non-cash charge of approximately $222 million which increased the valuation allowance against certain net deferred tax assets.

(7) Included in the period from August 31, 2009 through September 30, 2009 is a non-cash tax charge of $58 million related to the residual U.S. and foreign taxes on approximately $166 million of actual and deemed distributions of foreign earnings. The period from October 1, 2008 through August 30, 2009 income tax expense includes a non-cash adjustment of approximately $52 million which reduced the valuation allowance against certain deferred tax assets. Included in the period from October 1, 2008 through August 30, 2009 is a non-cash charge of $104 million related to the tax effects of the fresh start adjustments. In addition, the Predecessor includes the tax effect on the gain on the cancellation of debt from the extinguishment of the senior subordinated notes as well as the modification of the senior term credit facility resulting in approximately $124 million reduction in the U.S. net deferred tax asset exclusive of indefinite lived intangibles. Due to Spectrum Brands full valuation allowance position as of August 30, 2009 on the U.S. net deferred tax asset exclusive of indefinite lived intangibles, the tax effect of the gain on the cancellation of debt and the modification of the senior secured credit facility is offset by a corresponding adjustment to the valuation allowance of $124 million. The tax effect of the fresh start adjustments, the gain on the cancellation of debt and the modification of the senior secured credit facility, net of corresponding adjustments to the valuation allowance, are netted against reorganization items.

(8) Fiscal 2010 income tax expense of $63 million includes a non-cash charge of approximately $92 million which increased the valuation allowance against certain net deferred tax assets.

(9) See Note 14, Restructuring and Related Charges, of Notes to Consolidated Financial Statements included elsewhere in this prospectus for further discussion.

(10) Fiscal 2010 includes a non-cash charge of $83 million related to the write off of unamortized debt issuance costs and the write off of unamortized discounts and premiums related to the extinguishment of debt that was refinanced in conjunction with the SB/RH Merger.

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(11) Reorganization items income (expense) directly relates to Spectrum Brands voluntary reorganization under Chapter 11 of the Bankruptcy Code that commenced in February 2009 and concluded in August 2009. In addition to administrative costs related to the reorganization it reflects during the eleven months ended August 30, 2009, a $1,088 million gain from fresh-start reporting adjustments and a $147 million gain on cancellation of debt. See Note 2, Voluntary Reorganization Under Chapter 11, of Notes to Consolidated Financial Statements included elsewhere in this prospectus for further details of these reorganization items.

(12) Each of the periods presented does not assume the exercise of common stock equivalents as the impact would be antidilutive.

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

(14) Working capital is defined as current assets less current liabilities.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

This Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) of Harbinger Group Inc. (HGI , us , we or the Company) should be read in conjunction with Selected Financial Data, the audited consolidated financial statements and related notes of Harbinger Group Inc. and Subsidiaries for the fiscal years ended September 30, 2010, 2009 and 2008, (the Consolidated Financial Statements) and the unaudited condensed consolidated financial statements and related notes of Harbinger Group Inc. and Subsidiaries for the three and six month periods ended April 3, 2011 and April 4, 2010, all of which are included elsewhere in this prospectus. Certain statements we make herein constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. You should consider our forward-looking statements in light of our consolidated financial statements, related notes, and other financial information appearing elsewhere in this prospectus and our other filings with the Securities and Exchange Commission. See Special Note Regarding Forward-Looking Statements .

All references to Fiscal 2011, 2010, 2009, 2008, 2007 and 2006 refer to fiscal year periods ended September 30, 2011, 2010, 2009, 2008, 2007 and 2006, respectively. The six month interim periods ended April 3, 2011 and April 4, 2010 are referred to as the Fiscal 2011 Six Months and the Fiscal 2010 Six Months, respectively.

HGI Overview

We are a holding company that is 93.3% owned by Harbinger Capital Partners Master Fund I, Ltd. (the Master Fund), Global Opportunities Breakaway Ltd. and Harbinger Capital Partners Special Situations Fund, L.P. (together, the Principal Stockholders), not taking into account conversion of the Series A Participating Convertible Preferred Stock (the Preferred Stock) discussed below in Recent Developments.

We are focused on obtaining controlling equity stakes in subsidiaries that operate across a diversified set of industries. We view the acquisition of Spectrum Brands Holdings, Inc. (Spectrum Brands Holdings) and Fidelity & Guaranty Life Holdings, Inc. (F&G Holdings, formerly Old Mutual U.S. Life Holdings, Inc.), both discussed below under Recent Developments, as first steps in the implementation of that strategy. We have identified the following six sectors in which we intend to pursue investment opportunities: consumer products, insurance and financial products, telecommunications, agriculture, power generation and water and natural resources.

In pursuing our strategy, we will utilize the investment expertise and industry knowledge of Harbinger Capital, a multi-billion dollar private investment firm based in New York and an affiliate of the Principal Stockholders. We believe that the team at Harbinger Capital has a track record of making successful investments across various industries. We believe that our affiliation with Harbinger Capital will enhance our ability to identify and evaluate potential acquisition opportunities appropriate for a permanent capital vehicle. Our corporate structure provides significant advantages compared to the traditional hedge fund structure for long-term holdings as our sources of capital are longer term in nature and thus will more closely match our principal investment strategy. In addition, our corporate structure provides additional options for funding acquisitions, including the ability to use our common stock as a form of consideration.

Recent Developments

On June 28, 2011, we completed an offering of $150 million aggregate principal amount of the initial notes. We expect to use the net proceeds of the initial notes for working capital for us and our subsidiaries and general corporate purposes, which may include the financing of future acquisitions and other investments.

On November 15, 2010, we completed an offering of $350 million aggregate principal amount of existing notes (together with the initial notes, the 10.625% Notes). The net proceeds of this issuance have been subsequently used to acquire F&G Holdings on April 6, 2011, as discussed below.

On January 7, 2011, we acquired a controlling interest (currently 53.3%) in Spectrum Brands Holdings, a diversified global branded consumer products company, by issuing approximately 119.9 million shares of our common stock to the Principal Stockholders in exchange for approximately 27.8 million shares of common stock of Spectrum Brands Holdings in a transaction we refer to as the Spectrum Brands Acquisition . As a result, the Principal Stockholders own approximately 93.3% of our outstanding common stock, not taking into account conversion of the Preferred Stock.

Spectrum Brands Holdings reflects the combination on June 16, 2010, of Spectrum Brands, Inc. (Spectrum Brands) and Russell Hobbs, Inc. (Russell Hobbs), in a transaction we refer to as the SB/RH Merger . As a result of the SB/RH Merger, Spectrum Brands issued an approximately 65% controlling financial interest to the Principal Stockholders and an approximately 35% noncontrolling financial interest to other stockholders. Prior to the SB/RH Merger, the Principal Stockholders owned approximately 40% and 100% of the outstanding common stock of Spectrum Brands and Russell Hobbs, respectively. Spectrum Brands Holdings shares of common stock trade on the New York Stock Exchange under the symbol SPB.

Immediately prior to the Spectrum Brands Acquisition, the Principal Stockholders held the controlling financial interests in both us 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, if these amounts differ). Although we are the issuer of shares in the Spectrum Brands Acquisition, during the historical periods presented herein Spectrum Brands Holdings was an operating business and we were not. Therefore, Spectrum Brands Holdings has been reflected as the predecessor and receiving entity in our financial statements to provide a more meaningful presentation of the transaction to our stockholders. Accordingly, our financial statements have been retrospectively adjusted to reflect as our historical financial statements those of Spectrum Brands Holdings and Spectrum Brands, and our assets and liabilities have been recorded at the Principal Stockholders basis as of the date that common control was first established (June 16, 2010). As Spectrum Brands was the accounting acquirer in the SB/RH Merger, the financial statements of Spectrum Brands are included as our predecessor entity for periods preceding the SB/RH Merger.

In connection with the Spectrum Brands Acquisition, we changed our fiscal year end from December 31 to September 30 to conform to the fiscal year end of Spectrum Brands Holdings.

On March 9, 2011, we acquired Harbinger F&G and FS Holdco Ltd., a Cayman Islands exempted limited company (FS Holdco), from the Master Fund under a transfer agreement (the Transfer Agreement) entered into on March 7, 2011. As a result, we indirectly assumed the rights and obligations of Harbinger F&G to acquire all of the outstanding shares of capital stock of F&G Holdings and certain intercompany loan agreements between OM Group (UK) Limited (OM Group) as lender, and F&G Holdings, as borrower, in consideration for $350 million, which could be reduced by up to $50 million post closing if certain regulatory approval is not received. FS Holdco is a recently formed holding company, which is the indirect parent company of Front Street Re, Ltd. (Front Street), a recently formed Bermuda-based reinsurer, which has not engaged in any significant business to date. Neither Harbinger F&G nor FS Holdco has engaged in any business other than transactions contemplated under the Transfer Agreement. See Note 17 to our Consolidated Financial Statements for additional information regarding this transaction.

On April 6, 2011, we completed the acquisition of F&G Holdings for a cash purchase price of $350 million, which could be reduced by up to $50 million post closing if certain regulatory approval is not received, from OM Group in a transaction we refer to as the Fidelity & Guaranty Acquisition . We incurred approximately $22 million of expenses related to this transaction, which included reimbursements to the Master Fund of $13.3 million and a $5 million purchase price adjustment re-characterized as an expense since OM Group made a $5 million expense reimbursement to the Master Fund upon closing of the Fidelity & Guaranty Acquisition. As of March 31, 2011, F&G Holdings, through its insurance subsidiaries, is a provider of fixed annuity products in the U.S., with approximately 790,000 policy holders in the U.S. and a distribution network of approximately 300 independent marketing organizations representing approximately 25,000 agents nationwide. As of March 31, 2011, F&G Holdings had approximately $16.7 billion in investment assets. The Fidelity & Guaranty Acquisition will be accounted for under the acquisition method of accounting. Accordingly, the results of F&G Holdings operations will be included in our consolidated financial statements commencing April 6, 2011. See Note 17 to our Consolidated Financial Statements for additional information regarding this transaction.

On May 13, 2011, we issued 280,000 shares of Preferred Stock in a private placement for total gross proceeds of $280 million. The Preferred Stock (i) is mandatorily redeemable for cash (or, if a holder does not elect cash, automatically converted into common stock) on the seventh anniversary of issuance, (ii) is convertible into our common stock at an initial conversion price of $6.50 per share, subject to anti-dilution adjustments, (iii) has a liquidation preference of the greater of 150% of the purchase price or the value that would be received if it were converted into common stock, (iv) accrues a cumulative quarterly cash dividend at an annualized rate of 8% and (v) has a quarterly non-cash principal accretion at an annualized rate of 4% that will be reduced to 2% or 0% if we achieve specified rates of growth measured by increases in our net asset value. The Preferred Stock is entitled to vote and to receive cash dividends and in-kind distributions on an as-converted basis with the common stock. We expect to use the net proceeds of $269 million, net of related fees and expenses of approximately $11 million, from the issuance of the Preferred Stock for general corporate purposes, which may include acquisitions and other investments.

As of April 3, 2011, we operated in one segment: consumer products. Beginning in the third fiscal quarter of 2011, we will also operate in the insurance business as a result of the Fidelity & Guaranty Acquisition.

Consumer Products Business

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

We manufacture and market alkaline, zinc carbon and hearing aid batteries, herbicides, insecticides and repellants and specialty pet supplies. We design and market rechargeable batteries, battery-powered lighting products, electric shavers and accessories, grooming products and hair care appliances. With the addition of Russell Hobbs we design, market and distribute a broad range of branded small household appliances and personal care products. Our manufacturing and product development facilities are located in the United States, Europe, Latin America and Asia. Substantially all of our rechargeable batteries and chargers, shaving and grooming products, small household appliances, personal care products and portable lighting products are manufactured by third-party suppliers, primarily located in Asia.

We sell our products in approximately 130 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers (OEMs) and enjoy strong name recognition in our markets under the Rayovac, VARTA and Remington brands, each of which has been in existence for more than 80 years, and under the Tetra, 8-in-1, Spectracide, Cutter, Black & Decker, George Foreman, Russell Hobbs, Farberware and various other brands.

Our Spectrum Value Model is at the heart of our operating approach. This model emphasizes providing value to the consumer with products that work as well as or better than our competition for a lower cost. We do this while also delivering higher retailer margins. We concentrate our efforts to win at point of sale and on creating and maintaining a low-cost, efficient operating structure.

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

Chapter 11 Proceedings of Spectrum Brands in Fiscal 2009

As a result of substantial leverage, Spectrum Brands determined that, absent a financial restructuring, it would be unable to achieve future profitability or positive cash flows on a consolidated basis solely from cash generated from operating activities or to satisfy certain of its payment obligations as the same may become due and be at risk of not satisfying the leverage ratios to which it was subject under its then existing senior secured term loan facility, which ratios became more restrictive in future periods. Accordingly, on February 3, 2009, Spectrum Brands, at the time a Wisconsin corporation, and each of its wholly-owned U.S. subsidiaries (collectively, the Debtors) announced that it had reached agreements with certain noteholders, representing, in the aggregate, approximately 70% of the face value of its then outstanding senior subordinated notes, to pursue a refinancing that, if implemented as proposed, would significantly reduce its outstanding debt. On the same day, the Debtors filed voluntary petitions under Chapter 11 of the Bankruptcy Code, in the Bankruptcy Court (the Bankruptcy Filing) and filed with the Bankruptcy Court a proposed plan of reorganization (the Proposed Plan) that detailed the Debtors proposed terms for the refinancing. The Chapter 11 cases were jointly administered by the Bankruptcy Court as Case No. 09-50455 (the Bankruptcy Cases). The Bankruptcy Court entered a written order (the Confirmation Order) on July 15, 2009 confirming the Proposed Plan (as so confirmed, the Plan). The term Predecessor refers only to Spectrum Brands prior to the Effective Date and Successor refers to the periods subsequent to the Effective Date.

On the Effective Date the Plan became effective, and the Debtors emerged from Chapter 11 of the Bankruptcy Code. Pursuant to and by operation of the Plan, on the Effective Date, all of the Predecessor s existing equity securities, including the existing common stock and stock options, were extinguished and deemed cancelled. Spectrum Brands Holdings filed a certificate of incorporation authorizing new shares of common stock. Pursuant to and in accordance with the Plan, on the Effective Date, Spectrum Brands Holdings issued a total of 27,030,000 shares of common stock and $218 million of 12% Senior Subordinated Toggle Notes due 2019 (the 12% Notes) to holders of allowed claims with respect to the Predecessor s 81/2% Senior Subordinated Notes due 2013 (the 81/2 Notes), 73/8% Senior Subordinated Notes due 2015 (the 73/8 Notes) and Variable Rate Toggle Senior Subordinated Notes due 2013 (the Variable Rate Notes) (collectively, the Senior Subordinated Notes). (See also Note 7, Debt, to our Consolidated Financial Statements filed with this prospectus.) Also on the Effective Date, Spectrum Brands Holdings issued a total of 2,970,000 shares of common stock to supplemental and sub-supplemental debtor-in-possession facility participants in respect of the equity fee earned under the Debtors debtor-in-possession credit facility.

As a result of Spectrum Brands Bankruptcy Filing, Spectrum Brands was able to significantly reduce its indebtedness. As a result of the SB/RH Merger, Spectrum Brands was able to further reduce its outstanding debt leverage ratio. However, Spectrum Brands continues to have a significant amount of indebtedness relative to its competitors and paying down outstanding indebtedness continues to be a priority for it.

Accounting for Reorganization

Subsequent to the date of the Bankruptcy Filing (the Petition Date), Spectrum Brands financial statements were prepared in accordance with Accounting Standards Codification Topic 852: Reorganizations (ASC 852). ASC 852 does not change the application of accounting principles generally accepted in the United States of America (GAAP) in the preparation of Spectrum Brands consolidated financial statements. However, ASC 852 does require that financial statements, for periods including and subsequent to the filing of a Chapter 11 petition, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. In accordance with ASC 852 Spectrum Brands has done the following:

- On the four column consolidated balance sheet as of August 30, 2009, which is included in Note 2, Voluntary Reorganization Under Chapter 11, to our Consolidated Financial Statements, separated liabilities that are subject to compromise from liabilities that are not subject to compromise;

On the accompanying Consolidated Statements of Operations, distinguished transactions and events that are directly associated with the reorganization from the ongoing operations of the business, by separately disclosing Reorganization items expense (income), net, consisting of the following: (i) Fresh-start reporting adjustments; (ii) Gain on cancelation of debt; and (iii) Administrative related reorganization items; and

Ceased accruing interest on the Predecessor s then outstanding senior subordinated notes.

Fresh-Start Reporting

As required by ASC 852, Spectrum Brands adopted fresh-start reporting upon emergence from Chapter 11 of the Bankruptcy Code as of its monthly period ended August 30, 2009 as is reflected in this prospectus.

Since the reorganization value of the assets of the Predecessor immediately before the date of confirmation of the Plan was less than the total of all post-petition liabilities and allowed claims and the holders of the Predecessor s voting shares immediately before confirmation of the Plan received less than 50 percent of the voting shares of the emerging entity, Spectrum Brands adopted fresh-start reporting as of the close of business on August 30, 2009 in accordance with ASC 852. The Consolidated Balance Sheet as of August 30, 2009 gives effect to allocations to the carrying value of assets or amounts and classifications of liabilities that were necessary when adopting fresh-start reporting.

Spectrum Brands analyzed the transactions that occurred during the two-day period from August 29, 2009, the day after the Effective Date, through August 30, 2009, the fresh-start reporting date, and concluded that such transactions were not material individually or in the aggregate as they represented less than one-percent of the total Net sales for the entire fiscal year ended September 30, 2009. As such, Spectrum Brands determined that August 30, 2009, would be an appropriate fresh-start reporting date to coincide with its normal financial period close for the month of August 2009. Upon adoption of fresh-start reporting, the recorded amounts of assets and liabilities were adjusted to reflect their estimated fair values. Accordingly, the reported historical financial statements of the Predecessor prior to the adoption of fresh-start reporting for periods ended prior to August 30, 2009 are not comparable to those of the Successor.

Cost Reduction Initiatives

Spectrum Brands Holdings continually seeks to improve operational efficiency, match manufacturing capacity and product costs to market demand and better utilize manufacturing resources. Spectrum Brands has undertaken various initiatives to reduce manufacturing and operating costs.

Fiscal 2009. In connection with Spectrum Brands announcement to reduce its headcount and exit certain facilities in the U.S., Spectrum Brands implemented a number of cost reduction initiatives (the Global Cost Reduction Initiatives). These initiatives also included consultation, legal and accounting fees related to the evaluation of its capital structure.

Fiscal 2008. In connection with Spectrum Brands decision to exit its zinc carbon and alkaline battery manufacturing and distribution facility in Ninghai, China, Spectrum Brands undertook cost reduction initiatives (the Ningbo Exit Plan). These initiatives include fixed cost savings by integrating production equipment into the remaining production facilities and headcount reductions.

Fiscal 2007. In connection with the Global Realignment Initiatives, Spectrum Brands undertook a number of cost reduction initiatives, primarily headcount reductions, at the corporate and operating levels including a headcount reduction of approximately 200 employees.

Spectrum Brands also implemented a series of Latin America Initiatives . These initiatives include the reduction of certain manufacturing operations in Brazil and the restructuring of management, sales, marketing and support functions. As a result, Spectrum Brands Holdings reduced headcount in Latin America by approximately

100 employees.

Fiscal 2006. As a result of continued concern regarding the European economy, Spectrum Brands announced a series of initiatives in the in Europe to reduce operating costs and rationalize its manufacturing structure (the European Initiatives). These initiatives include the reduction of certain operations at the Ellwangen, Germany packaging center and relocating those operations to the Dischingen, Germany battery plant, transferring private label battery production at the Dischingen, Germany battery plant to the manufacturing facility in China and restructuring the sales, marketing and support functions. As a result, Spectrum Brands has reduced headcount in Europe by approximately 350 employees or 24%.

Results of Operations

Fiscal Six Month Period Ended April 3, 2011 Compared to Fiscal Six Month Period Ended April 4, 2010

Net Sales. Net sales for the Fiscal 2011 Six Months increased $430 million to $1,555 million from $1,125 million for the Fiscal 2010 Six Months. The following table details consolidated net sales by product line, and the amounts attributable to the acquisition of Russell Hobbs in the SB/RH Merger, for each of those respective periods (in millions):

Product line net sales	Fiscal Six Months 2011	Fiscal Six Months 2010	Increase (Decrease)
Russell Hobbs acquisition:			
Small appliances	$ 397	$	$ 397
Pet supplies	8		8
Home and garden control products	2		2
Total Russell Hobbs acquisition	407		407
Consumer batteries	429	434	(5)
Pet supplies	274	285	(11)
Electric shaving and grooming products	149	136	13
Electric personal care products	138	124	14
Home and garden control products	115	102	13
Portable lighting products	43	44	(1)
Total net sales to external customers	$ 1,555	$ 1,125	$ 430

During the Fiscal 2011 Six Months, global consumer battery sales decreased $5 million, or 1%, primarily driven by decreased Latin America net sales of $8 million, decreased European net sales of $3 million and unfavorable foreign exchange translation of $8 million. The decrease within Latin America was driven by lower specialty and alkaline battery sales volume across the region. These decreases were offset by increases within North America of $13 million as a result of increased sales with a major customer during our first fiscal quarter. The $11 million, or 4%, decrease in pet supplies sales is primarily attributable to continued softness in the aquatics business due to macroeconomic factors. Electric shaving and grooming products increased $13 million, or 10%, primarily due to increased sales within North America and Europe of $5 million and $8 million, respectively, as a result of successful product launches. Electric personal care sales increased $14 million, or 12%, primarily due to increased sales in North America and Europe of $4 million and $12 million, respectively. Home and garden control product sales increased $13 million, or 13%, primarily attributable to increased distribution with major customers. Portable lighting products sales decreased slightly to $43 million during the Fiscal 2011 Six Months compared to $44 million during the Fiscal 2010 Six Months.

We expect that our net sales will continue to be higher in the remaining six months of Fiscal 2011 compared to the same period of Fiscal 2010 due to the full period effect of the Russell Hobbs acquisition in Fiscal 2011, new distribution gains and placements in our pet supplies and home and garden control product lines and continued strength in our electric shaving and grooming and electric personal care product lines.

Gross Profit. Gross profit for the Fiscal 2011 Six Months increased $161 million to $555 million from $394 million for the Fiscal 2010 Six Months. The increase in gross profit for the Fiscal 2011 Six Months is attributable to the SB/RH Merger, which contributed $111 million of gross profit in the Fiscal 2011 Six Months, coupled with the non-recurrence of a $34 million inventory revaluation charge we recognized associated with our adoption of fresh-start reporting upon emergence from Chapter 11 of the Bankruptcy Code in August 2009. Inventory balances were revalued at August 30, 2009 resulting in an increase in such inventory balances of $49 million. As a result of the inventory revaluation, we recognized $34 million in additional cost of goods sold during the Fiscal 2010 Six Months. Our gross profit margin increased to 36% from 35% in the Fiscal 2010 Six Months. The increase in gross profit margin is also attributable to the inventory revaluation charge recognized in the Fiscal 2010 Six Months, which was partially offset by an increase in input costs during the Fiscal 2011 Six Months and the change in overall product mix as a result of the SB/RH Merger.

Selling, General & Administrative Expense. Selling, general and administrative expenses (SG&A) for the Fiscal 2011 Six Months increased $138 million to $468 million from $330 million for the Fiscal 2010 Six Months. The increase is primarily due to $76 million in SG&A for the addition of Russell Hobbs, a $19 million increase in acquisition and integration related charges principally related to the SB/RH Merger and $28 million of SG&A for the corporate expenses of HGI, which are reflected commencing June 16, 2010 (the date that common control was first established over Spectrum Brands and HGI) in the Fiscal 2011 Six Months. The corporate expenses of HGI included $5 million for corporate overhead expenses and $23 million of acquisition and project related expenses, which included $1 million related to the Spectrum Brands Acquisition, $21 million related to the FGL Acquisition and $1 million of other project related expenses.

Consolidated SG&A expenses are expected to increase as we recognize the full period effect of the Russell Hobbs Acquisition, consolidate the operations of FGL, continue to actively pursue our acquisition strategy and increase corporate oversight due to acquisitions and continued growth at subsidiaries. These increases in SG&A will be partially offset by cost synergies that Spectrum Brands expects to achieve with the SB/RH Merger and savings from its pet supplies product line restructuring over the next two years.

Interest Expense. Interest expense for the Fiscal 2011 Six Months increased $43 million to $141 million from $98 million for the Fiscal 2010 Six Months. Included in the Fiscal 2011 Six Months interest expense is $24 million related to the write off of unamortized debt issuance costs and debt discount and a prepayment penalty of $7 million related to Spectrum Brands senior secured term loan (the Term Loan) that was refinanced at a lower interest rate on February 1, 2011, accelerated amortization of $4 million related to a $70 million Term Loan prepayment and $15 million of interest expense on HGI s 10.625% Notes, which were issued on November 15, 2010.

Other (Income) Expense, net. Other (income) expense, net was nominal for the 2011 Fiscal Six Months, compared to an expense of $6 million for the 2010 Fiscal Six Months. The $6 million expense in the 2010 fiscal period was due to a foreign exchange loss recognized in connection with the designation of Spectrum Brands Venezuelan subsidiary as being in a highly inflationary economy and the devaluation of Venezuela s currency.

Reorganization Items. During the Fiscal 2010 Six Months, Spectrum Brands, in connection with its reorganization under Chapter 11 of the Bankruptcy Code in 2009, recorded reorganization items expense of $4 million, which are primarily professional and legal fees.

Income Taxes. We reported a provision for income taxes, despite a pretax loss from continuing operations in each period, based on an estimated annual consolidated effective tax rate of (112)% and (74)% for the 2011 and 2010 Fiscal Six Months, respectively. Such rates differ from the U.S. Federal statutory rate of 35% principally due to (i) deferred income tax provision related to the change in book versus tax basis of indefinite lived intangibles, which are amortized for tax purposes but not for book purposes, (ii) pretax losses in the United States and some foreign jurisdictions for which no tax benefit can be recognized due to full valuation allowances we have provided on our net operating loss carryforward tax benefits and other deferred tax assets and (iii) pretax income in other jurisdictions that is subject to tax.

Discontinued Operations. Loss from discontinued operations of $3 million in the Fiscal 2010 Six Months relates to the shutdown of growing products, which included the manufacturing and marketing of fertilizers, enriched soils, mulch and grass seed, following an evaluation of the historical lack of profitability and the projected input costs and significant working capital demands for growing products during Fiscal 2009.

Noncontrolling Interest. The net loss attributable to noncontrolling interest of $32 million in the 2011 Fiscal Six Months reflects the 45.5% share of the net loss of Spectrum Brands Holdings attributable to the noncontrolling interest not owned by HGI. There was no comparable amount in the 2010 Fiscal Six Months since the net losses for those periods were entirely attributable to the shareholders of the accounting predecessor, Spectrum Brands.

Fiscal Year Ended September 30, 2010 Compared to Fiscal Year Ended September 30, 2009

Fiscal 2010, when referenced within this MD&A, includes the results of Spectrum Brands Holdings for the full year and the results of Russell Hobbs and HGI for the period of June 16, 2010 through September 30, 2010.

Fiscal 2009, when referenced within this MD&A, includes the combined results of the Predecessor for the period from October 1, 2008 through August 30, 2009 and the Successor for the period from August 31, 2009 through September 30, 2009.

Highlights of Consolidated Operating Results

Year over year historical comparisons are influenced by the Spectrum Brands Acquisition and the acquisition of Russell Hobbs, which is included in our Fiscal 2010 Consolidated Statement of Operations from June 16, 2010, the date of the SB/RH Merger, through the end of the period. The results of Russell Hobbs are not included in our Fiscal 2009 Consolidated Financial Statements of Operations. See Note 15, Acquisition, to our Consolidated Financial Statements for supplemental pro forma information providing additional year over year comparisons of the impact of the acquisition. In addition, as a result of the HGI acquisition of Spectrum Brands Holdings being accounted for similar to the pooling of interest method, we have included the results of HGI from June 16, 2010, the date at which both HGI and Spectrum Brands Holdings were entities under common control, through the end of the period. The results of HGI are not included in our Fiscal 2009 results.

Net Sales. Net sales for Fiscal 2010 increased to $2,567 million from $2,231 million in Fiscal 2009, a 15% increase. Consolidated net sales by product line for Fiscal 2010 and 2009 are as follows (in millions):

	Fiscal Year 2010	Fiscal Year 2009	Increase (Decrease)
Product line net sales			
Consumer batteries	$ 866	$ 819	$ 47
Pet supplies	566	574	(8)
Home and garden control products	343	322	21
Electric shaving and grooming products	257	225	32
Small appliances	231		231
Electric personal care products	216	211	5
Portable lighting products	88	80	8
Total net sales to external customers	$ 2,567	$ 2,231	$ 336

Global consumer battery sales during Fiscal 2010 increased $47 million, or 6%, compared to Fiscal 2009, primarily driven by favorable foreign exchange impacts of $15 million coupled with increased sales in North America and Latin America. The sales increase in North America was driven by increased volume with a major customer and the increased sales in Latin America were a result of increased specialty battery sales, driven by successfully leveraging

Spectrum Brands Holdings value proposition, that is, products that work as well as or better than its competitors, at a lower price. These gains were partially offset by decreased consumer battery sales of $22 million in Europe, primarily due to the continued exit of low margin private label battery sales.

Pet product sales during Fiscal 2010 decreased $8 million, or 1%, compared to Fiscal 2009. The decrease of $8 million is attributable to decreased aquatics sales of $11 million and decreased specialty pet products of

$6 million, which was partially offset by the SB/RH Merger as it accounted for a net sales increase of $6 million during Fiscal 2010. Also offsetting the decreases was favorable foreign exchange impacts of $3 million. The $11 million decrease in aquatic sales is due to decreases within the United States and Pacific Rim of $6 million and $5 million, respectively, as a result of reduction in demand in this product category due to the macroeconomic slowdown as we maintained our market share in the category. The $6 million decrease in companion animal sales is due to a $9 million decline in the United States, primarily driven by a distribution loss of at a major retailer of certain dog shampoo products and the impact of a product recall, which was tempered by increases of $3 million in Europe.

Sales of home and garden control products during Fiscal 2010 versus Fiscal 2009 increased $21 million, or 6%. This increase is a result of additional sales to major customers that was driven by incentives to retailers and promotional campaigns during the year in both lawn and garden control products and household control products.

Electric shaving and grooming product sales during Fiscal 2010 increased $32 million, or 14%, compared to Fiscal 2009 primarily due to increased sales within Europe of $25 million coupled with favorable foreign exchange translation of $5 million. The increase in Europe sales is a result of new product launches, pricing and promotions.

Small appliances contributed $231 million or 9% of total net sales for Fiscal 2010. This represents sales related to Russell Hobbs from the date of the consummation of the SB/RH Merger, June 16, 2010 through the close of Fiscal 2010.

Electric personal care product sales during Fiscal 2010 increased $5 million, or 2%, when compared to Fiscal 2009. The increase of $5 million during Fiscal 2010 was attributable to favorable foreign exchange impacts of $2 million coupled with modest sales increases within Latin America and North America of $3 million and $1 million, respectively. These sales increases were partially offset by modest declines in Europe of $2 million.

Sales of portable lighting products in Fiscal 2010 increased $8 million, or 10%, compared to Fiscal 2009 as a result of increases in North America of $3 million coupled with favorable foreign exchange translation of $2 million. Sales of portable lighting products also increased modestly in both Europe and Latin America.

Gross Profit. Gross profit for Fiscal 2010 was $921 million versus $816 million for Fiscal 2009. Our gross profit margin for Fiscal 2010 decreased to 35.9% from 36.6% in Fiscal 2009. The decrease in our gross profit margin is primarily a result of Spectrum Brands adoption of fresh-start reporting upon emergence from Chapter 11 of the Bankruptcy Code. Upon the adoption of fresh-start reporting, in accordance with Statement of Financial Accounting Standards No. 141, *Business Combinations,* (SFAS 141), inventory balances were revalued at August 30, 2009 resulting in an increase in such inventory balances of $49 million. As a result of the inventory revaluation, Spectrum Brands recognized $34 million in additional cost of goods sold during Fiscal 2010 compared to $15 million of additional cost of goods sold recognized in Fiscal 2009. The impact of the inventory revaluation was offset by lower Restructuring and related charges in Cost of goods sold during Fiscal 2010, which included $7 million of Restructuring and related charges whereas Fiscal 2009 included $13 million of Restructuring and related charges. The Restructuring and related charges incurred in Fiscal 2010 were primarily associated with cost reduction initiatives announced in 2009. The $13 million of Restructuring and related charges incurred in Fiscal 2009 primarily related to the shutdown of our Ningbo, China battery manufacturing facility. See *Restructuring and Related Charges* below, as well as Note 14, Restructuring and Related Charges, to our Consolidated Financial Statements for additional information regarding our restructuring and related charges.

Selling, General & Administrative Expense. SG&A for Fiscal 2010 totaled $668 million versus $568 million for Fiscal 2009. The $100 million increase in SG&A for Fiscal 2010 versus Fiscal 2009 was partially driven by $52 million of SG&A for the addition of Russell Hobbs and $2 million of SG&A for the corporate expenses at HGI, which are reflected commencing June 16, 2010 (the date that common control was first established over Spectrum

Brands and HGI) in the accompanying Consolidated Statements of Operations for Fiscal 2010. Also included in SG&A for Fiscal 2010 was additional depreciation and amortization as a

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result of the revaluation of Spectrum Brands long lived assets in connection with its adoption of fresh-start reporting upon emergence from Chapter 11 of the Bankruptcy Code, an increase of $14 million in stock compensation expense and an unfavorable foreign exchange translation of $7 million.

Acquisition and integration related charges. Acquisition and integration related charges include but are not limited to transaction costs such as banking, legal and accounting professional fees directly related to the acquisition, termination and related costs for transitional and certain other employees, integration related professional fees and other post business combination related expenses associated with the SB/RH Merger and other acquisition related work at HGI. We incurred $45 million of Acquisition and integration related charges during Fiscal 2010, which consisted of the following: (i) $31 million of legal and professional fees; (ii) $10 million of employee termination charges; and (iii) $4 million of integration costs. There were no comparable expenses for Fiscal 2009.

Restructuring and Related Charges. The following table summarizes all restructuring and related charges we incurred in Fiscal 2010 and Fiscal 2009 (in millions):

	2010	**2009**
Costs included in cost of goods sold:		
Global Cost Reduction Initiatives:		
Termination benefits	$ 2.6	$ 0.2
Other associated costs	2.3	2.3
Ningbo Exit Plan:		
Termination benefits		0.9
Other associated costs	2.1	8.6
Global Realignment Initiatives:		
Termination benefits	0.2	0.3
Other associated costs	(0.1)	0.9
Latin America Initiatives:		
Termination benefits		0.2
Total included in cost of goods sold	$ 7.1	$ 13.4
Costs included in operating expenses:		
Global Cost Reduction Initiatives:		
Termination benefits	$ 4.3	$ 6.6
Other associated costs	9.3	11.3
Ningbo Exit Plan:		
Other associated costs		1.3
Global Realignment Initiatives:		
Termination benefits	5.4	7.1
Other associated costs	(1.9)	3.5
European Initiatives:		
Termination benefits	(0.1)	
United & Tetra integration:		
Termination benefits		2.3
Other associated costs		0.3
Total included in operating expenses	$ 17.0	$ 32.4

Total restructuring and related charges	$ 24.1	$ 45.8

As part of Spectrum Brands Global Realignment Initiatives, it recorded approximately $4 million and $11 million of pretax restructuring and related charges during Fiscal 2010 and Fiscal 2009, respectively. Costs associated with these initiatives, which are expected to be incurred through June 30, 2011, relate primarily to severance and are projected at approximately $89 million, of which less than $1 million is expected to be incurred during the next fiscal year.

During Fiscal 2008, Spectrum Brands implemented an initiative within the global batteries and personal care product lines to reduce operating costs and rationalize its manufacturing structure. These initiatives, which are substantially complete, include the Ningbo Exit Plan. Spectrum Brands Holdings recorded approximately $2 million and $11 million of pretax restructuring and related charges during Fiscal 2010 and Fiscal 2009, respectively, in connection with the Ningbo Exit Plan. They have recorded pretax and restructuring and related charges of approximately $29 million since the inception of the Ningbo Exit Plan.

During Fiscal 2009, Spectrum Brands implemented a series of initiatives known as the Global Cost Reduction Initiatives to reduce operating costs as well as evaluate opportunities to improve its capital structure. These initiatives include headcount reductions and the exit of certain facilities in the U.S. related to the pet supplies product line. These initiatives also included consultation, legal and accounting fees related to the evaluation of Spectrum Brands capital structure. Spectrum Brands recorded $18 million and $20 million of pretax restructuring and related charges during Fiscal 2010 and Fiscal 2009, respectively, related to the Global Cost Reduction Initiatives. Costs associated with these initiatives, which are expected to be incurred through March 31, 2014, are projected at approximately $65 million, of which approximately $27 million are expected to be incurred in future periods.

See Note 14, Restructuring and Related Charges, of our Consolidated Financial Statements for additional information regarding our restructuring and related charges.

Goodwill and Intangibles Impairment. ASC 350 requires companies to test goodwill and indefinite-lived intangible assets for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. In Fiscal 2010 and 2009, Spectrum Brands tested its goodwill and indefinite-lived intangible assets. As a result of this testing, Spectrum Brands recorded a non-cash pretax impairment charge of $34 million in Fiscal 2009. The $34 million non-cash pretax impairment charge incurred in Fiscal 2009 reflects trade name intangible asset impairments. See Note 6, Goodwill and Intangibles, of our Consolidated Financial Statements for further details on this impairment charge.

Interest Expense. Interest expense in Fiscal 2010 increased to $277 million from $190 million in Fiscal 2009. The increase was driven primarily by the following unusual items: (i) $55 million representing the write-off of the unamortized portion of discounts and premiums related to debt that was paid off in conjunction with the refinancing of Spectrum Brands debt structure, a non-cash charge; (ii) $13 million related to bridge commitment fees while these debts were being refinanced; (iii) $7 million representing the write-off of the unamortized debt issuance costs related to debt that was paid off, a non-cash charge; (iv) $4 million related to a prepayment premium; and (v) $3 million related to the termination of a Euro-denominated interest rate swap.

Other Expense (Income), net. Other expense (income), net was $12 million for Fiscal 2010. Fiscal 2010 included a $10 million expense for a foreign exchange loss recognized in connection with the designation of Spectrum Brands Holdings Venezuelan subsidiary as being in a highly inflationary economy, as well as the devaluation of Venezuela s currency. At January 4, 2010, the beginning of our second quarter of Fiscal 2010, we determined that Venezuela meets the definition of a highly inflationary economy under GAAP. As a result, beginning January 4, 2010, the U.S. dollar is the functional currency for Spectrum Brands Venezuelan subsidiary. Accordingly, going forward, currency remeasurement adjustments for this subsidiary s financial statements and other transactional foreign exchange gains and losses are reflected in earnings. Through January 3, 2010, prior to being designated as highly inflationary, translation adjustments related to the Venezuelan subsidiary were reflected in stockholders equity as a component of accumulated other comprehensive (loss) income.

In addition, on January 8, 2010, the Venezuelan government announced its intention to devalue its currency, the Bolivar fuerte, relative to the U.S. dollar. The official exchange rate for imported goods classified as essential, such as food and medicine, changed from 2.15 to 2.6 to the U.S. dollar, while payments for other non-essential goods moved to an exchange rate of 4.3 to the U.S. dollar. Some of our imported products fall into the essential classification and qualify for the 2.6 rate; however, our overall results in Venezuela were reflected at the 4.3 rate expected to be applicable to dividend repatriations beginning in the second quarter of Fiscal 2010. As a result, we remeasured the local statement of financial position of our Venezuela entity during the second quarter of Fiscal 2010 to reflect the impact of the devaluation. Based on actual exchange activity, we determined on September 30, 2010 that the most likely method of exchanging its Bolivar fuertes for U.S. dollars will be to formally apply with the Venezuelan government to exchange through commercial banks at the SITME rate specified by the Central Bank of Venezuela. The SITME rate as of September 30, 2010 was quoted at 5.3 Bolivar fuerte per U.S. dollar. Therefore, we changed the rate used to remeasure Bolivar fuerte denominated transactions as of September 30, 2010 from the official non-essentials exchange rate to the 5.3 SITME rate in accordance with ASC 830, Foreign Currency Matters as it is the expected rate that exchanges of Bolivar fuerte to U.S. dollars will be settled. There is also an immaterial ongoing impact related to measuring our Venezuelan statement of operations at the new exchange rate of 5.3 to the U.S. dollar.

Reorganization Items. During Fiscal 2010, Spectrum Brands, in connection with its reorganization under Chapter 11 of the Bankruptcy Code, recorded Reorganization items (expense), net of approximately $(4) million, which primarily consisted of legal and professional fees. During Fiscal 2009, the Predecessor recorded Reorganization items income, net, which represents a gain of approximately $1,143 million. Reorganization items (expense) income, net included the following: (i) gain on cancellation of debt of $147 million; (ii) gains in connection with fresh-start reporting adjustments of $1,088 million; (iii) legal and professional fees of $(75) million; (iv) write off deferred financing costs related to the Senior Subordinated Notes of $(11) million; and (v) a provision for rejected leases of $(6) million. During Fiscal 2009, Spectrum Brands recorded Reorganization items (expense) income, net which represents expense of $(4) million related to professional fees. See Note 2, Voluntary Reorganization Under Chapter 11, of our Consolidated Financial Statements for more information related to the reorganization under Chapter 11 of the Bankruptcy Code.

Income Taxes. We reported a consolidated provision for income taxes, despite a pretax loss from continuing operations, reflecting an effective rate of (47.8%) for the year ended September 30, 2010. Such rate differs from the U.S. Federal statutory rate of 35% principally due to (i) deferred income tax provision related to the change in book versus tax basis of indefinite lived intangibles, which are amortized for tax purposes but not for book purposes, (ii) pretax losses in the United States and some foreign jurisdictions for which no tax benefit can be recognized due to full valuation allowances we have provided on our net operating loss carryforward tax benefits and other deferred tax assets and (iii) pretax income in other jurisdictions that is subject to tax.

Our effective tax rate on pretax income or losses from continuing operations was approximately 2.0% for the Predecessor and (256)% for the Successor during Fiscal 2009. The primary drivers of the differences in the effective rates as compared to the U.S. statutory rate of 35% were the fresh-start reporting valuation adjustment in the Fiscal 2009 Predecessor period and residual taxes on the actual and deemed distribution of foreign earnings in the Fiscal 2009 Successor period.

As of September 30, 2010, Spectrum Brands Holdings has U.S. Federal and state net operating loss carryforwards of approximately $1,087 million and $936 million, respectively. These net operating loss carryforwards expire through years ending in 2031, and have foreign loss carryforwards of approximately $195 million, which will expire beginning in 2011. Certain of the foreign net operating losses have indefinite carryforward periods. Spectrum Brands Holdings is subject to an annual limitation on the use of its U.S. net operating losses that arose prior to its emergence from bankruptcy. Spectrum Brands Holdings has had multiple changes of ownership, as defined under Internal Revenue Code (IRC) Section 382, that subject its U.S. federal and state net operating losses and other tax attributes to certain limitations. The annual limitation is based on a number of factors including the value of its stock (as defined for tax purposes) on the date of the ownership change, net unrealized built in gain position on that date, the occurrence of realized built in gains in years subsequent to the ownership change, and the effects of subsequent ownership changes (as defined for tax purposes) if any. In addition, separate return year limitations apply to limit Spectrum Brands

Holdings utilization of the acquired Russell Hobbs U.S. Federal and state net operating losses to future income of the Russell Hobbs subgroup. Based on these factors, Spectrum Brands Holdings projects that $296 million of the total U.S. Federal and $463 million of the state net operating loss will expire unused. In addition, Spectrum

Brands Holdings projects that $38 million of the total foreign net operating loss carryforwards will expire unused. A full valuation allowance has been provided against these deferred tax assets.

Spectrum Brands recognized income tax expense of approximately $124 million related to the gain on the settlement of liabilities subject to compromise and the modification of the senior secured credit facility in the period from October 1, 2008 through August 30, 2009. This adjustment, net of a change in valuation allowance is embedded in Reorganization items expense (income), net. In accordance with the IRC Section 108, Spectrum Brands has reduced its net operating loss carryforwards for cancellation of debt income that arose from its emergence from Chapter 11 of the Bankruptcy Code under IRC Section 382 (1)(6).

The ultimate realization of Spectrum Brands Holdings deferred tax assets depends on its ability to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. Spectrum Brands Holdings establishes valuation allowances for deferred tax assets when it estimates it is more likely than not that the tax assets will not be realized. These estimates are based on projections of future income, including tax planning strategies, in certain jurisdictions. Changes in industry conditions and other economic conditions may impact the ability to project future income. ASC Topic 740: *Income Taxes* (ASC 740) requires the establishment of a valuation allowance when it is more likely than not that some portion or all of the deferred tax assets will not be realized. In accordance with ASC 740, Spectrum Brands Holdings periodically assesses the likelihood that its deferred tax assets will be realized and determine if adjustments to the valuation allowance are appropriate.

HGI s valuation allowance at September 30, 2010 totaled $5 million principally due to our inability to recognize an income tax benefit on our pretax losses during 2010.

Spectrum Brands Holdings total valuation allowance established for the tax benefit of deferred tax assets that may not be realized is approximately $331 million at September 30, 2010. Of this amount, approximately $300 million relates to U.S. net deferred tax assets and approximately $31 million relates to foreign net deferred tax assets. In connection with the SB/RH Merger, Spectrum Brands Holdings established an additional valuation allowance of approximately $104 million related to acquired net deferred tax assets as part of acquisition accounting. In 2009, the Predecessor recorded a reduction in the valuation allowance against the U.S. net deferred tax asset exclusive of indefinite lived intangible assets primarily as a result of utilizing net operating losses to offset the gain on settlement of liabilities subject to compromise and the impact of the fresh start reporting adjustments. Spectrum Brands recorded a reduction in the domestic valuation allowance of $47 million as a reduction to goodwill as a result of Spectrum Brands income. Total valuation allowance established for the tax benefit of deferred tax assets that may not be realized is approximately $133 million at September 30, 2009. Of this amount, approximately $109 million relates to U.S. net deferred tax assets and approximately $24 million relates to foreign net deferred tax assets. A non-cash deferred income tax charge of approximately $257 million was recorded related to a valuation allowance against U.S. net deferred tax assets during Fiscal 2008. Included in the total is a non-cash deferred income tax charge of approximately $4 million related to an increase in the valuation allowance against our net deferred tax assets in China in connection with the Ningbo Exit Plan. It was also determined that a valuation allowance was no longer required in Brazil and thus a $31 million benefit was recoded to reverse the valuation allowance previously established. Total valuation allowance, established for the tax benefit of deferred tax assets that may not be realized, is approximately $496 million at September 30, 2008. Of this amount, approximately $468 million relates to U.S. net deferred tax assets and approximately $28 million relates to foreign net deferred tax assets.

ASC 350 requires companies to test goodwill and indefinite-lived intangible assets for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. During Fiscal 2009 Spectrum Brands recorded a non-cash pretax impairment charge of approximately $34 million. The tax impact, prior to consideration of the current year valuation allowance, of the impairment charges was a deferred tax benefit of approximately $13 million. See *Goodwill and Intangibles Impairment* above, as well as Note 6, Goodwill and

Intangibles, of our Consolidated Financial Statements for additional information regarding these non-cash impairment charges.

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In addition, Spectrum Brands income tax provision for the year ended September 30, 2010 reflects the correction of a prior period error which increases income tax provision by approximately $6 million.

ASC 740, which clarifies the accounting for uncertainty in tax positions, requires that we recognize in our financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. As a result, we recognized no cumulative effect adjustment at the time of adoption. As of September 30, 2010 and September 30, 2009, the total amount of unrecognized tax benefits that, if recognized, would affect the effective income tax rate in future periods was $13 million and $8 million, respectively. See Note 8, Income Taxes, of our Consolidated Financial Statements for additional information.

Discontinued Operations. During Fiscal 2009, Spectrum Brands shut down its growing products line, which included the manufacturing and marketing of fertilizers, enriched soils, mulch and grass seed. Accordingly, the presentation herein of the results of continuing operations excludes growing products for all periods presented. See Note 9, Discontinued Operations, of our Consolidated Financial Statements for further details on the disposal of the growing products line. The following amounts related to the growing products line have been segregated from continuing operations and are reflected as discontinued operations during Fiscal 2010 and Fiscal 2009, respectively (in millions):

	2010	**2009**
Net sales	$	$ 31.3
Loss from discontinued operations before income taxes	$ (2.5)	$ (90.9)
Income tax expense (benefit)	0.2	(4.5)
Loss from discontinued operations, net of tax	$ (2.7)	$ (86.4)

Noncontrolling Interest. The net loss attributable to noncontrolling interest of $46 million in Fiscal 2010 reflects the 45.5% share of the net loss of Spectrum Brands Holdings from June 16, 2010 through September 30, 2010 attributable to the noncontrolling interest not owned by HGI. There were no comparable amounts in the Fiscal 2009 Successor and Predecessor periods since the net losses for those periods were entirely attributable to the shareholders of the accounting predecessor, Spectrum Brands.

Fiscal Year Ended September 30, 2009 Compared to Fiscal Year Ended September 30, 2008

Fiscal 2009, when referenced within this MD&A, includes the combined results of the Predecessor for the period from October 1, 2008 through August 30, 2009 and the Successor for the period from August 31, 2009 through September 30, 2009.

Fiscal 2008, when referenced within this MD&A, includes the results of the Predecessor for the period from October 1, 2007 through September 30, 2008.

Net Sales. Consolidated net sales by product line for Fiscal 2009 and 2008 are as follows (in millions):

	Fiscal Year		**Increase**
	2009	**2008**	**(Decrease)**

Product line net sales			
Consumer batteries	$ 819	$ 916	$ (97)
Pet supplies	574	599	(25)
Home and garden control products	322	334	(12)
Electric shaving and grooming products	225	247	(22)
Electric personal care products	211	231	(20)
Portable lighting products	80	100	(20)
Total net sales to external customers	$ 2,231	$ 2,427	$ (196)

Global consumer battery sales during Fiscal 2009 decreased $97 million, or 11%, compared to Fiscal 2008, primarily driven by unfavorable foreign exchange impacts of $70 million coupled with decreased consumer battery sales of $50 million and $15 million in Latin America and Europe, respectively. These declines were partially offset by increased consumer battery sales, mainly alkaline batteries, in North America of $38 million. The alkaline battery sales increase in North America is mainly due to higher volume at a major customer coupled with new distribution. The decreased consumer battery sales in Latin America is a result of a slowdown in economic conditions in all countries and inventory de-stocking at retailers mainly in Brazil. Zinc carbon batteries decreased $35 million while alkaline battery sales were down $15 million in Latin America. The decreased consumer battery sales within Europe are primarily attributable to the decline in alkaline battery sales due to a slowdown in economic conditions and the continued efforts to exit unprofitable or marginally profitable private label battery sales.

Pet supplies product sales during Fiscal 2009 decreased $25 million, or 4%, compared to Fiscal 2008. The decrease of $25 million is primarily attributable to decreased aquatics sales of $27 million coupled with unfavorable foreign exchange impacts of $11 million. These decreases were partially offset by increases of $13 million within specialty pet products. The decrease in aquatics sales of $27 million during Fiscal 2009 was attributable to declines in the U.S., Europe and Pacific Rim of $14 million, $10 million and $3 million, respectively. The declines in the U.S. were a result of decreased sales of large equipment, such as aquariums, driven by softness in this product category due to the macroeconomic slowdown as we maintained our market share in the category. The declines in Europe were due to inventory de-stocking at retailers and weak filtration product sales, both a result of the slowdown in economic conditions. The declines the Pacific Rim were also a result of the slowdown in economic conditions. The increase of $13 million in specialty pet products is a result of increased sales of our Dingo brand dog treats coupled with price increases on select products, primarily in the U.S.

Sales of home and garden control products decreased $12 million during Fiscal 2009 versus Fiscal 2008, or 4%, primarily due to retail customers managing their inventory levels to unprecedented low levels, combined with such retailers ending their outdoor lawn and garden control season six weeks early as compared to prior year seasons and the decision to exit certain unprofitable or marginally profitable products. This decrease in sales within lawn and garden control products was partially offset by increased sales of household insect control products.

Electric shaving and grooming product sales during Fiscal 2009 decreased $22 million, or 9%, compared to Fiscal 2008 primarily due to unfavorable foreign exchange translation of $19 million. The decline of $3 million, excluding unfavorable foreign exchange, was due to a $7 million decrease of sales within North America, which was partially offset by slight increases within Europe and Latin America of $3 million and $1 million, respectively. The decreased sales of electric shaving and grooming products within North America were a result of delayed inventory stocking at certain major customers for the 2009 holiday season which in turn resulted in a delay of product shipments that historically would have been recorded during the fourth quarter of the fiscal year. The increases within Europe and Latin America were driven by new product launches, pricing and promotions.

Electric personal care product sales during Fiscal 2009 decreased $20 million, or 9%, when compared to Fiscal 2008. The decrease of $20 million during Fiscal 2009 was attributable to unfavorable foreign exchange impacts of $24 million and declines in North America of $7 million. These decreases were partially offset by increases within Europe and Latin America of $8 million and $3 million, respectively. Similar to the electric shaving and grooming products sales, the decreased sales of electric personal care products within North America was a result of delayed holiday inventory stocking by customers which in turn resulted in a delay of product shipments that historically would have been recorded during the fourth quarter of the fiscal year. The increased sales within Europe and Latin America were a result of successful product launches, mainly in women s hair care.

Sales of portable lighting products in Fiscal 2009 decreased $20 million, or 20%, compared to Fiscal 2008 as a result of unfavorable foreign exchange impacts of $5 million coupled with declines in North America, Latin America and

Europe of $9 million, $3 million and $1 million, respectively. The decreases across all regions are a result of the slowdown in economic conditions and decreased market demand.

Gross Profit. Gross profit for Fiscal 2009 was $816 million versus $920 million for Fiscal 2008. Our gross profit margin for Fiscal 2009 decreased to 36.6% from 37.9% in Fiscal 2008. Gross profit was lower in Fiscal 2009 due to unfavorable foreign exchange impacts of $58 million. As a result of the adoption of fresh-start reporting upon emergence from Chapter 11 of the Bankruptcy Code, in accordance with SFAS No. 141, *Business Combinations,* (SFAS 141), inventory balances were revalued as of August 30, 2009 resulting in an increase in such inventory balances of $49 million. As a result of the inventory revaluation, Spectrum Brands recognized $15 million in additional cost of goods sold in Fiscal 2009. The remaining $34 million of the inventory revaluation was recorded during the first quarter of Fiscal 2010. These inventory revaluation adjustments are non-cash charges. In addition, in connection with the adoption of fresh-start reporting, and in accordance with ASC 852, Spectrum Brands revalued its properties as of August 30, 2009 which resulted in an increase to such assets of $34 million. As a result of the revaluation of properties, during Fiscal 2009, Spectrum Brands incurred an additional $2 million of depreciation charges within cost of goods sold. See Note 2, Voluntary Reorganization Under Chapter 11, of our Consolidated Financial Statements for more information related to the reorganization under Chapter 11 of the Bankruptcy Code and fresh-start reporting. Offsetting the unfavorable impacts to gross margin, Spectrum Brands incurred $13 million of Restructuring and related charges, within Costs of goods sold, during Fiscal 2009, compared to $16 million in Fiscal 2008. The $13 million in Fiscal 2009 primarily related to the 2009 Cost Reduction Initiatives and the Ningbo Exit Plan, while the Fiscal 2008 charges were primarily related to the Ningbo Exit Plan. See *Restructuring and Related Charges* below for additional information regarding restructuring and related charges.

Selling, General & Administrative Expense. SG&A for Fiscal 2009 totaled $568 million versus $695 million for Fiscal 2008. This $127 million decrease in SG&A for Fiscal 2009 versus Fiscal 2008 was primarily driven by the positive impact related to foreign exchange of $37 million in Fiscal 2009 coupled with the non-recurrence of a charge in Fiscal 2008 of $18 million associated with the depreciation and amortization related to the assets of the growing products line incurred as a result of the reclassification of the growing products line from discontinued operations to continuing.

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Restructuring and Related Charges. The following table summarizes all restructuring and related charges we incurred in 2009 and 2008 (in millions):

	2009	2008
Costs included in cost of goods sold:		
Global Cost Reduction Initiatives:		
Termination benefits	$ 0.2	$
Other associated costs	2.3	
Ningbo Exit Plan:		
Termination benefits	0.9	1.2
Other associated costs	8.6	15.2
Global Realignment initiatives:		
Termination benefits	0.3	0.1
Other associated costs	0.9	0.1
Latin America initiatives:		
Termination benefits	0.2	
Other associated costs		0.3
European initiatives:		
Termination benefits		(0.8)
Other associated costs		0.1
United & Tetra integration:		
Other associated costs		0.3
Total included in cost of goods sold	$ 13.4	$ 16.5
Costs included in operating expenses:		
Global Cost Reduction Initiatives:		
Termination benefits	$ 6.6	$
Other associated costs	11.3	
Ningbo Exit Plan:		
Other associated costs	1.3	
Global Realignment:		
Termination benefits	7.1	12.3
Other associated costs	3.5	7.5
Latin America initiatives:		
Termination benefits		0.1
United & Tetra integration:		
Termination benefits	2.3	2.0
Other associated costs	0.3	0.9
Total included in operating expenses	$ 32.4	$ 22.8
Total restructuring and related charges	$ 45.8	$ 39.3

In connection with the acquisitions of United Industries Corporation (United) and Tetra Holding GmbH (Tetra) in Fiscal 2005, Spectrum Brands implemented a series of initiatives to optimize the global resources of the combined companies. These initiatives included: integrating all of United s home and garden administrative services, sales and customer service functions into our operations in Madison, Wisconsin; converting all information systems to SAP; consolidating United s home and garden manufacturing and distribution locations in North America; rationalizing the North America supply chain; and consolidating administrative, manufacturing and distribution facilities of our global pet supplies business. In addition, certain corporate functions were shifted to Spectrum Brands then global headquarters in Atlanta, Georgia. Spectrum Brands recorded approximately $(1) million of restructuring and related charges during Fiscal 2009, to adjust prior estimates and eliminate the accrual, and no charges during Fiscal 2008.

Effective October 1, 2006, Spectrum Brands suspended initiatives to integrate the activities of the growing products line into the operations in Madison, Wisconsin. Spectrum Brands recorded $1 million of restructuring and related charges during Fiscal 2009 and de minimis restructuring and related charges in Fiscal 2008 in connection with the integration of the United home and garden business.

Integration activities within Global Pet Supplies were substantially complete as of September 30, 2007. Global Pet Supplies integration activities consisted primarily of the rationalization of manufacturing facilities and the optimization of our distribution network. As a result of these integration initiatives, two pet supplies facilities were closed in 2005, one in Brea, California and the other in Hazleton, Pennsylvania, one pet supply facility was closed in 2006, in Hauppauge, New York and one pet supply facility was closed in 2007 in Moorpark, California. Spectrum Brands recorded approximately $2 million and $3 million of pretax restructuring and related charges during Fiscal 2009 and Fiscal 2008, respectively.

Spectrum Brands has implemented a series of initiatives in Europe to reduce operating costs and rationalize its manufacturing structure (the European Initiatives) to reduce operating costs and rationalize the manufacturing structure. These initiatives include the relocation of certain operations at the Ellwangen, Germany packaging center to the Dischingen, Germany battery plant, transferring private label battery production at our Dischingen, Germany battery plant to the manufacturing facility in China and restructuring Europe s sales, marketing and support functions. In connection with the European Initiatives, Spectrum Brands recorded de minimis pretax restructuring and related charges in Fiscal 2009 and approximately $(1) million in pretax restructuring and related charges, representing the true-up of reserve balances, during Fiscal 2008.

Spectrum Brands has implemented a series of initiatives in Latin America to reduce operating costs (the Latin American Initiatives). The initiatives include the reduction of certain manufacturing operations in Brazil and the restructuring of management, sales, marketing and support functions. Spectrum Brands recorded de minimis pretax restructuring and related charges during both Fiscal 2009 and Fiscal 2008 in connection with the Latin American Initiatives.

As part of Spectrum Brands Global Realignment Initiatives, it recorded approximately $11 million and $20 million of pretax restructuring and related charges during Fiscal 2009 and Fiscal 2008, respectively. Costs associated with these initiatives relate primarily to severance.

See Note 14, Restructuring and Related Charges, of our Consolidated Financial Statements for additional information regarding our restructuring and related charges.

Goodwill and Intangibles Impairment. ASC 350 requires companies to test goodwill and indefinite-lived intangible assets for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. In Fiscal 2009 and 2008, we tested our goodwill and indefinite-lived intangible assets. As a result of this testing, we recorded a non-cash pretax impairment charge of $34 million and $861 million in Fiscal 2009 and Fiscal 2008, respectively. The $34 million non-cash pretax impairment charge incurred in Fiscal 2009 reflects trade name intangible asset impairments. The $861 million non-cash pretax impairment charge incurred in Fiscal 2008 reflects $602 million related to the impairment of goodwill and $259 million related to the impairment of trade name intangible assets. See Note 6, Goodwill and Intangibles, of our Consolidated Financial Statements for further details on these impairment charges.

Interest Expense. Interest expense in Fiscal 2009 decreased to $190 million from $229 million in Fiscal 2008. The decrease in Fiscal 2009 is primarily due to ceasing the accrual of interest on the Predecessor s Senior Subordinated Notes, partially offset by the accrual of the default interest on our U.S. Dollar Term B Loan and Euro facility and ineffectiveness related to interest rate derivative contracts. Contractual interest not accrued on the Senior Subordinated Notes during Fiscal 2009 was $56 million. See Liquidity and Capital Resources Debt Financing Activities and Note 7, Debt, of our Consolidated Financial Statements for additional information regarding our outstanding debt.

Reorganization Items. During Fiscal 2009, the Predecessor, in connection with Spectrum Brands reorganization under Chapter 11 of the Bankruptcy Code, recorded Reorganization items income, net, which represents a gain of approximately $1,143 million. Reorganization items expense (income), net included the following: (i) gain on cancellation of debt of $147 million; (ii) gains in connection with fresh-start reporting adjustments of $1,088 million; (iii) legal and professional fees of $(75) million; (iv) write off deferred financing costs related to the Senior Subordinated Notes of $(11) million; and (v) a provision for rejected leases of $(6) million. During Fiscal 2009, Spectrum Brands recorded Reorganization items (expense), net which represents expense of $(4) million related to professional fees. See Note 2, Voluntary Reorganization Under Chapter 11, of our Consolidated Financial Statements for more information related to our reorganization under Chapter 11 of the Bankruptcy Code.

Income Taxes. Our effective tax rate on pretax income or loss from continuing operations was approximately 2.0% for the Predecessor and (256)% for the Successor during Fiscal 2009. Our effective tax rate on pretax loss from continuing operations was approximately 1.0% for Fiscal 2008. The primary drivers of the change in our effective rate for Spectrum Brands for Fiscal 2009 as compared to Fiscal 2008 relate to residual income taxes recorded on the actual and deemed distribution of foreign earnings in Fiscal 2009. The change in the valuation allowance related to these dividends was recorded against goodwill as an adjustment for release of valuation allowance. The primary drivers for Fiscal 2008 include tax expense recorded for an increase in the valuation allowance associated with our net U.S. deferred tax asset and the tax impact of the impairment charges.

We recognized income tax expense of approximately $124 million related to the gain on the settlement of liabilities subject to compromise and the modification of the senior secured credit facility in the period from October 1, 2008 through August 30, 2009. This adjustment, net of a change in valuation allowance is embedded in Reorganization items expense (income), net. In 2010, we reduced our net operating loss carryforwards for any cancellation of debt income in accordance with IRC Section 108 that arises from Spectrum Brands emergence from Chapter 11 of the Bankruptcy Code under IRC Section 382(1)(6).

In 2009, the Predecessor recorded a reduction in the valuation allowance against the U.S. net deferred tax asset exclusive of indefinite lived intangible assets primarily as a result of utilizing net operating losses to offset the gain on settlement of liabilities subject to compromise and the impact of the fresh start reporting adjustments. Spectrum Brands recorded a reduction in the domestic valuation allowance of $47 million as a reduction to goodwill as a result of the recognition of pre-fresh start deferred tax assets to offset Spectrum Brands income. Our total valuation allowance established for the tax benefit of deferred tax assets that may not be realized was approximately $133 million at September 30, 2009. Of this amount, approximately $109 million relates to U.S. net deferred tax assets and approximately $24 million related to foreign net deferred tax assets. We recorded a non-cash deferred income tax charge of approximately $257 million related to a valuation allowance against U.S. net deferred tax assets during Fiscal 2008. Included in the total is a non-cash deferred income tax charge of approximately $4 million related to an increase in the valuation allowance against our net deferred tax assets in China in connection with the Ningbo Exit Plan. We also determined that a valuation allowance was no longer required in Brazil and thus recorded a $31 million benefit to reverse the valuation allowance previously established. Our total valuation allowance, established for the tax benefit of deferred tax assets that may not be realized, was approximately $496 million at September 30, 2008. Of this amount, approximately $468 million related to U.S. net deferred tax assets and approximately $28 million related to foreign net deferred tax assets.

ASC 350 requires companies to test goodwill and indefinite-lived intangible assets for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. During Fiscal 2009 and Fiscal 2008, we recorded non-cash pretax impairment charges of approximately $34 million and $861 million, respectively. The tax impact, prior to consideration of the current year valuation allowance, of the impairment charges was a deferred tax benefit of approximately $13 million and $143 million, respectively. See *Goodwill and Intangibles Impairment* above for additional information regarding these non-cash impairment charges.

See Note 8, Income Taxes, of our Consolidated Financial Statements for additional information.

Discontinued Operations. During Fiscal 2009, Spectrum Brands shut down the growing products, which included the manufacturing and marketing of fertilizers, enriched soils, mulch and grass seed. Accordingly, the presentation herein of the results of continuing operations excludes growing products for all periods presented. See Note 9, Discontinued Operations, of our Consolidated Financial Statements for further details on the disposal of the growing products The following amounts related to the growing products line have been segregated from continuing operations and are reflected as discontinued operations during Fiscal 2009 and Fiscal 2008, respectively (in millions):

	2009	2008
Net sales	$ 31.3	$ 261.4
Loss from discontinued operations before income taxes	$ (90.9)	$ (27.1)
Income tax benefit	(4.5)	(2.1)
Loss from discontinued operations, net of tax	$ (86.4)	$ (25.0)

In accordance with ASC 360, long-lived assets to be disposed of are recorded at the lower of their carrying value or fair value less costs to sell. During Fiscal 2008, Spectrum Brands recorded a non-cash pretax charge of $6 million in discontinued operations to reduce the carrying value of intangible assets related to the growing products in order to reflect the estimated fair value of this business.

On November 1, 2007, Spectrum Brands sold the Canadian division of the growing products line to a new company formed by RoyCap Merchant Banking Group and Clarke Inc. Cash proceeds received at closing, net of selling expenses, totaled approximately $15 million and was used to reduce outstanding debt. These proceeds are included in net cash provided by investing activities of discontinued operations in the Consolidated Statements of Cash Flows included in this prospectus. On February 5, 2008, Spectrum Brands finalized the contractual working capital adjustment in connection with this sale which increased the received proceeds by approximately $1 million. As a result of the finalization of the contractual working capital adjustments a loss on disposal of approximately $1 million, net of tax benefit, was recorded. Accordingly, the presentation herein of the results of continuing operations excludes the Canadian division of the growing products line for all periods presented. See Note 9, Discontinued Operations, of our Consolidated Financial Statements for further details on this sale.

The following amounts related to the Canadian division of the growing products line have been segregated from continuing operations and are reflected as discontinued operations during Fiscal 2008:

	2008(A)
Net sales	$ 4.7
Loss from discontinued operations before income taxes	$ (1.9)
Income tax benefit	(0.7)
Loss from discontinued operations, net of tax	$ (1.2)

(A) Fiscal 2008 represents results from discontinued operations from October 1, 2007 through November 1, 2007, the date of sale. Included in the Fiscal 2008 loss is a loss on disposal of approximately $1 million, net of tax benefit.

Liquidity and Capital Resources

HGI

HGI s liquidity needs are primarily for interest payments on our 10.625% notes (approximately $53 million per year) and dividend payments on our Preferred Stock (approximately $22 million per year), professional fees (including advisory services, legal and accounting fees), salaries and benefits, office rent, pension expense and insurance costs. HGI s current source of liquidity is its cash, cash equivalents and investments. HGI expects its cash, cash equivalents and investments to continue to be a source of liquidity, except to the extent they may be used to fund the acquisition of operating businesses or assets (including funding the transaction expenses of such acquisitions).

HGI is a holding company that is dependent on the proceeds realized from investments and dividends or distributions from its subsidiaries as its primary source of cash. The ability of HGI s subsidiaries to generate sufficient net income and cash flows to make upstream cash distributions is subject to numerous factors, including restrictions contained in its subsidiaries financing agreements, availability of sufficient funds in such subsidiaries and applicable state laws and regulatory restrictions. At the same time, HGI s subsidiaries may require additional capital to grow their businesses. Such capital could come from HGI, retained earnings at the relevant subsidiary or from third-party sources. For example, Front Street will require additional capital in order to engage in reinsurance transactions, including any possible transaction with F&G Holdings. See Business Front Street. As another example, Harbinger F&G may be required during the term of the Reserve Facility to post additional cash collateral. See The Fidelity & Guaranty Acquisition, the Reserve Facility and the CARVM Facility. We do not expect to receive any dividends from Spectrum Brands Holdings through 2011. However, we do expect to receive future dividends from F&G Holdings sufficient to fund a substantial portion of the interest payments on the notes.

We expect our cash, cash equivalents and investments to continue to be a source of liquidity except to the extent they may be used to fund investments in operating businesses or assets. At April 3, 2011, HGI s cash, cash equivalents and investments were $464 million. Subsequent to April 3, 2011, HGI used $350 million of cash for the Fidelity & Guaranty Acquisition and approximately $17 million for related expenses.

Based on current levels of operations, HGI does not have any significant capital expenditure commitments and management believes that its consolidated cash, cash equivalents and investments on hand will be adequate to fund its operational and capital requirements for at least the next twelve months. Depending on the size and terms of future acquisitions of operating businesses or assets, HGI may raise additional capital through the issuance of equity, debt, or both. There is no assurance, however, that such capital will be available at the time, in the amounts necessary or with terms satisfactory to HGI.

Spectrum Brands Holdings

Spectrum Brands Holdings expects to fund its cash requirements, including capital expenditures, interest and principal payments due in Fiscal 2011 through a combination of cash on hand ($73 million as of April 3, 2011) and cash flows from operations and available borrowings under the Spectrum Brands senior secured asset-based revolving credit facility (Spectrum Brands ABL Facility or the ABL Revolving Credit Facility). Spectrum Brands Holdings expects its capital expenditures for the remaining six months of Fiscal 2011 will be approximately $21 million. Going forward, its ability to satisfy financial and other covenants in its senior credit agreements and senior subordinated indenture and to make scheduled payments or prepayments on its debt and other financial obligations will depend on its future financial and operating performance. There can be no assurances that its business will generate sufficient cash flows from operations or that future borrowings under the ABL Revolving Credit Facility will be available in an amount sufficient to satisfy its debt maturities or to fund its other liquidity needs. In addition, the current economic crisis could have a further negative impact on its financial position, results of operations or cash flows. Accordingly, Spectrum Brands Holdings has and expects it will continue to use a portion of available cash to repay debt prior to expected maturity, for the purpose of improving its capital structure.

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Discussion of Consolidated Cash Flows

Operating Activities

Net cash used in operating activities totaled $134 million for the Fiscal 2011 Six Months as compared to a use of $81 million for the Fiscal 2010 Six Months. The $53 million increase in cash used from continuing operations was the result of:

An $87 million increased use in working capital and other assets and liabilities, primarily driven by lower accounts payable due in part to seasonal timing related to the SB/RH Merger and the foreign exchange impact on assets and liabilities.

Higher cash interest payments of $36 million, of which $15 million related to interest on Spectrum Brands 12% Notes which was paid in kind during the Fiscal 2010 Six Months but paid in cash during the Fiscal 2011 Six Months, and the remainder primarily due to timing of interest payments as a result of the change in Spectrum Brands capital structure in connection with the SB/RH Merger.

Higher cash payments for acquisition and integration related charges and restructuring and related charges of $26 million related to the SB/RH Merger and various restructuring initiatives that Spectrum Brands has implemented and $7 million of acquisition related payments by HGI, principally related to the Spectrum Brands and FGL Acquisitions.

Higher cash tax payments of $3 million.

Partially offsetting these increased uses were $46 million of cash payments for administrative related reorganization items during the Fiscal 2010 Six Months which did not recur and cash used in discontinued operating activities of $9 million during the Fiscal 2010 Six Months which relates to the shutdown of Spectrum Brands line of growing products and was nominal during the Fiscal 2011 Six Months.

Net cash provided by operating activities was $51 million during Fiscal 2010 compared to $77 million during Fiscal 2009. Cash provided by operating activities from continuing operations was $62 million during Fiscal 2010 compared to $98 million during Fiscal 2009. The $26 million decrease in cash provided by operating activities was primarily due to payments of $47 million related to professional fees from Spectrum Brands Bankruptcy Filing and $25 million of payments related to the SB/RH Merger. This was partially offset by an increase in income from continuing operations after adjusting for non-cash items of $34 million in Fiscal 2010 compared to Fiscal 2009. Cash used by operating activities from discontinued operations was $11 million in Fiscal 2010 compared to a use of $22 million in Fiscal 2009. The operating activities of discontinued operations were related to the growing products line. See *Discontinued Operations,* above, as well as Note 9, Discontinued Operations, of our Consolidated Financial Statements for further details on the disposal of the growing products line.

Investing Activities

Net cash used in investing activities was $37 million for the Fiscal 2011 Six Months. For the Fiscal 2010 Six Months, net cash used in investing activities was $10 million. The $27 million increase in cash used by investing activities is due to the cash use of $14 million, net of maturities, for the purchase of U.S. Treasury Notes by HGI, $10 million in conjunction with the Seed Resources, LLC acquisition in Fiscal 2011 coupled with increased capital expenditures of $8 million, partially offset by proceeds of $7 million from the sale of the Ningbo, China battery manufacturing facility in Fiscal 2011.

Net cash provided by investing activities was $49 million for Fiscal 2010. For Fiscal 2009 investing activities used cash of $20 million. The $49 million of cash provided in Fiscal 2010 was primarily due to $66 million of HGI cash added to the consolidated balance sheet as of June 16, 2010 in connection with the common control accounting for the Spectrum Brands Acquisition and $26 million from the net maturities of certain of HGI s investments. This has been partially offset by $40 million in capital expenditures and $3 million of payments related to the SB/RH Merger, net of cash acquired from Russell Hobbs. Net cash used in investing activities in Fiscal 2009 relate to $9 million of cash paid in Fiscal 2009 related to performance fees from the Microlite acquisition and $11 million of capital expenditures.

Financing Activities

Net cash provided by financing activities was $385 million for the Fiscal 2011 Six Months compared to $56 million for the Fiscal 2010 Six Months. The increase of $329 million was primarily related to the issuance of our 10.625% Notes, for which we received $345 million of proceeds, net of original issue discount of $5 million. We also increased borrowings under the Spectrum Brands ABL Facility by $79 million compared to the borrowings in the prior year period. Partially offsetting these increases were net payments under the Term Loan of $72 million and an increase in debt issuance costs and prepayment penalties of $24 million.

In connection with the SB/RH Merger, on June 16, 2010 Spectrum Brands Holdings (i) entered into a $750 million Term Loan pursuant to a senior credit agreement (the Senior Credit Agreement), (ii) issued $750 million in aggregate principal amount of 9.5% Senior Secured Notes (the 9.5% Notes) and (iii) entered into the $300 million ABL Revolving Credit Facility. The proceeds from such financing were used to repay its then-existing senior term credit facility (the Prior Term Facility) and its then-existing asset based revolving loan facility, to pay fees and expenses in connection with the refinancing and for general corporate purposes.

Debt Financing Activities

HGI

On November 15, 2010 and June 28, 2011, we issued $350,000 and $150,000, respectively, or $500,000 aggregate principal amount of 10.625% Senior Secured Notes due November 15, 2005 (10.625% Notes). The 10.625% Notes were sold only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the Securities Act), and to certain persons in offshore transactions in reliance on Regulation S. The initial $350,000 of 10.625% Notes were subsequently registered under the Securities Act by way of an exchange offer and the additional $150,000 of 10.625% Notes are subject to registration under this exchange offer. The 10.625% Notes were issued at an aggregate price equal to 99.311% of the principal amount thereof, with a net original issue discount (OID) of $3,445. Interest on the 10.625% Notes is payable semi-annually, commencing on May 15, 2011 and ending November 15, 2015. The 10.625% Notes are collateralized with a first priority lien on substantially all of the assets directly held by us, including stock in our subsidiaries (with the exception of Zap.Com Corporation, but including Spectrum Brands and Harbinger F&G) and our directly held cash and investment securities.

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

The indenture governing the 10.625% Notes contains covenants limiting, among other things, and subject to certain qualifications and exceptions, our ability, and, in certain cases, the ability of our subsidiaries, to incur additional indebtedness; create liens; engage in sale-leaseback transactions; pay dividends or make distributions in respect of capital stock; make certain restricted payments; sell assets; engage in certain transactions with affiliates; or consolidate or merge with, or sell substantially all of our assets to, another person. We are also required to maintain compliance with certain financial tests, including minimum liquidity and collateral coverage ratios that are based on the fair market value of the collateral, including the shares of Spectrum Brands, Harbinger F&G and HGI Funding common stock owned by us. At April 3, 2011, the Company was in compliance with all covenants under the 10.625% Notes.

Spectrum Brands

In connection with the SB/RH Merger, on June 16, 2010 Spectrum Brands (i) entered into a $750 million Term Loan pursuant to a senior credit agreement (the Senior Credit Agreement), (ii) issued $750 million in aggregate principal amount of 9.5% Senior Secured Notes (the 9.5% Notes) and (iii) entered into the $300 million ABL Revolving Credit Facility. The proceeds from such financing were used to repay its then-existing senior term credit facility (the Prior Term Facility) and its then-existing asset based revolving loan facility, to pay fees and expenses in connection with the refinancing and for general corporate purposes.

Senior Term Credit Facility

On February 1, 2011, Spectrum Brands completed the refinancing of its Term Loan, which, at that time, had an aggregate amount outstanding of $680 million, with a new senior secured term loan facility (the New Term Loan , together with the amended ABL Revolving Credit Facility, the Senior Credit Facilities) at a lower interest rate. The New Term Loan reduces scheduled principal amortizations to approximately $7 million per year, contains a one-year soft call protection of 1% on refinancing but none on other voluntary prepayments, and has the same financial, negative (other than a more favorable ability to repurchase other indebtedness) and affirmative covenants and events of default as the former Term Loan. Subject to certain mandatory prepayment events, the New Term Loan is subject to repayment according to a scheduled amortization, with the final payment of all amounts outstanding, plus accrued and unpaid interest, due at maturity. Among other things, the New Term Loan provides for interest on the New Term Loan at a rate per annum equal to, at Spectrum Brands option, the LIBO rate (adjusted for statutory reserves) subject to a 1.00% floor plus a margin equal to 4.00%, or an alternate base rate plus a margin equal to 3.00%.

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

At April 3, 2011, Spectrum Brands was in compliance with all covenants under the New Term Loan.

9.5% Notes

At both April 3, 2011 and September 30, 2010, Spectrum Brands had outstanding principal of $750 million under the 9.5% Notes maturing June 15, 2018.

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

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

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

At April 3, 2011, Spectrum Brands was in compliance with all covenants under the 9.5% Notes and the 2018 Indenture.

12% Notes

On August 28, 2009, in connection with emergence from the voluntary reorganization under Chapter 11, Spectrum Brands issued $218 million in aggregate principal amount of 12% Notes maturing August 28, 2019 (the 12% Notes). Semiannually, at its option, Spectrum Brands may elect to pay interest on the 12% Notes in cash or as payment in kind (or PIK). PIK interest is added to principal upon the relevant semi-annual interest payment date. Under the Prior Term Facility, Spectrum Brands agreed to make interest payments on the 12% Notes through PIK for the first three semi-annual interest payment periods. As a result of the refinancing of the Prior Term Facility, Spectrum Brands is no longer required to make PIK interest payments after the semi-annual interest payment date of August 28, 2010.

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

At April 3, 2011 and September 30, 2010, Spectrum Brands had outstanding principal of $245 million under the 12% Notes, including PIK interest of $27 million added during Fiscal 2010.

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

In addition, the 2019 Indenture provides for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments on or acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the 2019 Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 12% Notes. If any other event of default under the 2019 Indenture occurs and is continuing, the trustee for the 2019 Indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 12% Notes may declare the acceleration of the amounts due under those notes.

In connection with the SB/RH Merger, Spectrum Brands obtained the consent of the note holders to certain amendments to the 2019 Indenture (the Supplemental Indenture). The Supplemental Indenture became effective upon the closing of the SB/RH Merger. Among other things, the Supplemental Indenture amended the definition of change in control to exclude the Principal Stockholders and increased Spectrum Brands ability to incur indebtedness up to $1.85 billion.

At April 3, 2011, Spectrum Brands was in compliance with all covenants under the 12% Notes and the 2019 Indenture. However, Spectrum Brands is subject to certain limitations as a result of its Fixed Charge Coverage Ratio under the 2019 Indenture being below 2:1. Until the test is satisfied, Spectrum Brands and certain of its subsidiaries are limited in their ability to make significant acquisitions or incur significant additional senior debt beyond the Senior

Credit Facilities. Spectrum Brands does not expect the inability to satisfy the Fixed Charge Coverage Ratio test to impair its ability to provide adequate liquidity to meet the short-term and long-term liquidity requirements of our existing business, although no assurance can be given in this regard.

ABL Revolving Credit Facility

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

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

Prior to April 21, 2011, the ABL Revolving Credit Facility carried an interest rate, at Spectrum Brands option, which was subject to change based on availability under the facility, of either: (a) the base rate plus currently 2.75% per annum or (b) the reserve-adjusted LIBO rate (the Eurodollar Rate) plus currently 3.75% per annum. No principal amortization was required with respect to the ABL Revolving Credit Facility. The ABL Revolving Credit Facility was scheduled to mature on June 16, 2014. As described further below, effective April 21, 2011, the Company entered into certain amendments to the ABL Credit Agreement.

The ABL Credit Agreement contains various representations and warranties and covenants, including, without limitation, enhanced collateral reporting, and a maximum fixed charge coverage ratio. The ABL Credit Agreement also provides for customary events of default, including payment defaults and cross-defaults on other material indebtedness. Pursuant to the credit and security agreement, the obligations under the ABL Credit Agreement are secured by certain current assets of the guarantors, including, but not limited to, deposit accounts, trade receivables and inventory.

As a result of borrowings and payments under the ABL Revolving Credit Facility at April 3, 2011, Spectrum Brands had aggregate borrowing availability of approximately $82 million, net of lender reserves of $29 million. At April 3, 2011, Spectrum Brands had outstanding letters of credit of $36 million under the ABL Revolving Credit Facility.

At April 3, 2011, Spectrum Brands was in compliance with all covenants under the ABL Credit Agreement.

Effective April 21, 2011, Spectrum Brands amended its ABL Credit Agreement to include, without limitation, the following:

The maturity date was extended to April 21, 2016 from June 16, 2014;

The interest margins were reduced to, depending on the average availability, either (i) base rate plus a margin equal to 1.00%, 1.25% or 1.50% per annum (previously 2.50%, 2.75% or 3.00%), as applicable, or (ii) LIBOR plus a margin equal to 2.00%, 2.25% or 2.50% per annum (previously 3.50%, 3.75% or 4.00%), as applicable;

The unused commitment fees payable by Spectrum Brands were reduced to (i) a rate per annum equal to 0.375% (previously 0.50%) when utilization equals or exceeds 50% of the aggregate commitments under the ABL Revolving Credit Facility and (ii) a rate per annum equal to 0.50% (previously 0.75%) when utilization is less than 50% of such commitments;

The covenants in respect of the administrative agent s inspection rights and certain restrictions on liens, debt, acquisitions, accounts receivable dispositions, restricted payments and prepayments of subordinated debt were amended to be more favorable to, and generally allow greater operational flexibility for, Spectrum Brands; and

Amendments to allow for certain internal corporate restructuring transactions to be undertaken by Spectrum Brands.

Interest Payments and Fees

In addition to principal payments on the Senior Credit Facilities, Spectrum Brands has annual interest payment obligations of approximately $71 million in the aggregate under the 9.5% Notes and annual interest payment obligations of approximately $29 million in the aggregate under the 12% Notes. Spectrum Brands also incurs interest on borrowings under the Senior Credit Facilities and such interest would increase borrowings under the ABL Revolving Credit Facility if cash were not otherwise available for such payments. Interest on the 9.5% Notes and interest on the 12% Notes is payable semi-annually in arrears and interest under the Senior Credit Facilities is payable on various interest payment dates as provided in the Senior Credit Agreement and the ABL Credit Agreement. Interest is payable in cash, except that interest under the 12% Notes is required to be paid by increasing the aggregate principal amount due under the subject notes unless Spectrum Brands elects to make such payments in cash. Effective with the payment date of February 28, 2011, Spectrum Brands elected to make the semi-annual interest payment scheduled for August 28, 2011 in cash. Thereafter, Spectrum Brands may make the semi-annual interest payments for the 12% Notes either in cash or by further increasing the aggregate principal amount due under the notes subject to certain conditions. Based on amounts currently outstanding under the Senior Credit Facilities, and using market interest rates and foreign exchange rates in effect at April 3, 2011, we estimate annual interest payments of approximately $40 million in the aggregate under the Senior Credit Facilities would be required assuming no further principal payments were to occur and excluding any payments associated with outstanding interest rate swaps. Spectrum Brands is required to pay certain fees in connection with the Senior Credit Facilities. Such fees include a quarterly commitment fee of up to 0.75% (which was reduced to 0.50% in connection with the aforementioned amendment to the ABL Credit Agreement) on the unused portion of the ABL Revolving Credit Facility and certain additional fees with respect to the letter of credit sub-facility under the ABL Revolving Credit Facility.

Series A Participating Convertible Preferred Stock

On May 13, 2011, we issued 280,000 shares of Series A Participating Convertible Preferred Stock in a private placement for total gross proceeds of $280 million. See Recent Developments.

Off-Balance Sheet Arrangements

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

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Contractual Obligations

The following table summarizes our contractual obligations as of September 30, 2010 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in millions). The table excludes other obligations that have been reflected on our Consolidated Balance Sheet as of September 30, 2010, such as pension obligations. The table also separately reflects the pro forma effect of the subsequent issuances of the 10.625% Notes.

	Payments Due by Period				
	Total	**2011**	**2012 to 2013**	**2014 to 2015**	**After 2015**
Operating lease obligations(1)	$ 178	$ 35	$ 60	$ 34	$ 49
Debt, excluding capital lease obligations(2)	1,759	20	74	78	1,587
Interest payments, excluding capital lease obligations	1,132	163	320	307	342
Capital lease obligations(3)	12	1	2	2	7
Letters of credit(4)	53	48	2		3
Total contractual obligations as of September 30, 2010	3,134	267	458	421	1,988
10.625% Notes	500				500
Interest Payments on 10.625% Notes	258	19	106	106	27
Pro forma contractual obligations	$ 3,892	$ 286	$ 564	$ 527	$ 2,515

(1) For more information concerning operating leases, see Note 12 to our Consolidated Financial Statements.

(2) For more information concerning debt, see Note 7 to our Consolidated Financial Statements.

(3) Capital lease payments due by fiscal year include executory costs and imputed interest.

(4) Consists entirely of standby letters of credit that back the performance of certain entities under various credit facilities, insurance policies and lease arrangements.

Seasonality

On a consolidated basis our 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 grooming and electric personal care product categories, particularly in North America, tend to be concentrated in the December holiday season (our 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 (our 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.

The seasonality of our sales during the last three fiscal years is as follows:

Percentage of Annual Sales

Fiscal Quarter Ended	Fiscal Year Ended September 30, 2010	2009	2008
December	23%	25%	24%
March	21%	23%	22%
June	25%	26%	26%
September	31%	26%	28%

Critical Accounting Policies

Our Consolidated Financial Statements have been prepared in accordance with GAAP and fairly present our financial position and results of operations. We believe the following accounting policies are critical to an understanding of our financial statements. The application of these policies requires management s judgment and estimates in areas that are inherently uncertain.

Litigation and Environmental Reserves

The establishment of litigation and environmental reserves requires judgments concerning the ultimate outcome of pending claims against the Company and our subsidiaries. In applying judgment, management utilizes opinions and estimates obtained from outside legal counsel to apply the appropriate accounting for contingencies. Accordingly, estimated amounts relating to certain claims have met the criteria for the recognition of a liability. Other claims for which a liability has not been recognized are reviewed on an ongoing basis in accordance with accounting guidance. A liability is recognized for all associated legal costs as incurred. Liabilities for litigation settlements, environmental settlements, legal fees and changes in these estimated amounts may have a material impact on our financial position, results of operations or cash flows.

If the actual cost of settling these matters, whether resulting from adverse judgments or otherwise, differs from the reserves totaling $8.9 million we have accrued as of April 3, 2011, that difference will be reflected in our results of operations when the matter is resolved or when our estimate of the cost changes.

Valuation of Assets and Asset Impairment

We evaluate certain long-lived assets to be held and used, such as property, plant and equipment and definite-lived intangible assets for impairment based on the expected future cash flows or earnings projections associated with such assets. Impairment reviews are conducted at the judgment of management when it believes that a change in circumstances in the business or external factors warrants a review. Circumstances such as the discontinuation of a product or product line, a sudden or consistent decline in the sales forecast for a product, changes in technology or in the way an asset is being used, a history of operating or cash flow losses or an adverse change in legal factors or in the business climate, among others, may trigger an impairment review. An asset s value is deemed impaired if the discounted cash flows or earnings projections generated do not substantiate the carrying value of the asset. The estimation of such amounts requires management s judgment with respect to revenue and expense growth rates, changes in working capital and selection of an appropriate discount rate, as applicable. The use of different assumptions would increase or decrease discounted future operating cash flows or earnings projections and could, therefore, change impairment determinations.

ASC 350 requires companies to test goodwill and indefinite-lived intangible assets for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have been incurred. In Fiscal 2010, Fiscal 2009 and Fiscal 2008, we tested our goodwill and indefinite-lived intangible assets. As a result of this testing, Spectrum Brands Holdings recorded no impairment charges in Fiscal 2010 and non-cash pretax impairment charges of $34 million and $861 million in Fiscal 2009 and Fiscal 2008, respectively.

We used a discounted estimated future cash flows methodology, third party valuations and negotiated sales prices to determine the fair value of our reporting units (goodwill). Fair value of indefinite-lived intangible assets, which represent trade names, was determined using a relief from royalty methodology. Assumptions critical to our fair value estimates were: (i) the present value factors used in determining the fair value of the reporting units and trade names or third party indicated fair values for assets expected to be disposed; (ii) royalty rates used in our trade name valuations; (iii) projected average revenue growth rates used in the reporting unit and trade name models; and

(iv) projected long-term growth rates used in the derivation of terminal year values. We also tested fair value for reasonableness by comparison to our total market capitalization, which includes both our equity and debt securities. These and other assumptions are impacted by economic conditions and expectations of management and will change in the future based on period specific facts and circumstances. In light of a sustained decline in market capitalization coupled with the

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decline of the fair value of our debt securities, we also considered these factors in the Fiscal 2008 annual impairment testing.

The fair value of the global batteries & personal care, global pet supplies, small appliances and home and garden reporting units exceeded their carry values by 52%, 49%, 13% and 10%, respectively, as of the date of the latest annual impairment testing.

See Note 3, Significant Accounting Policies and Practices, Note 4, Balance Sheet Detail - Properties, Note 6, Goodwill and Intangibles, and Note 9, Discontinued Operations, of our Consolidated Financial Statements for more information about these assets.

Revenue Recognition and Concentration of Credit Risk

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

We enter into various promotional arrangements, primarily with retail customers, including arrangements entitling such retailers to cash rebates from us based on the level of their purchases, which require us to estimate and accrue the costs of the promotional programs. These costs are generally treated as a reduction of net sales.

We also enter into promotional arrangements that target the ultimate consumer. Such arrangements are treated as either a reduction of net sales or an increase in cost of sales, based on the type of promotional program. The income statement presentation of our promotional arrangements complies with ASC Topic 605: *Revenue Recognition.* Cash consideration, or an equivalent thereto, given to a customer is generally classified as a reduction of net sales. If we provide a customer anything other than cash, the cost of the consideration is classified as an expense and included in cost of sales.

For all types of promotional arrangements and programs, we monitor our commitments and use statistical measures and past experience to determine the amounts to be recorded for the estimate of the earned, but unpaid, promotional costs. The terms of our customer-related promotional arrangements and programs are tailored to each customer and are generally documented through written contracts, correspondence or other communications with the individual customers.

We also enter into various arrangements, primarily with retail customers, which require us to make an upfront cash, or slotting payment, to secure the right to distribute through such customer. We capitalize slotting payments, provided the payments are supported by a time or volume based arrangement with the retailer, and amortize the associated payment over the appropriate time or volume based term of the arrangement. The amortization of slotting payments is treated as a reduction in net sales and a corresponding asset is reported in Deferred charges and other assets in our Consolidated Balance Sheets included in this prospectus.

Our trade receivables subject us to credit risk which is evaluated based on changing economic, political and specific customer conditions. We assess these risks and make provisions for collectability based on our best estimate of the risks presented and information available at the date of the financial statements. The use of different assumptions may change our estimate of collectability. We extend credit to our customers based upon an evaluation of the customer s financial condition and credit history and generally do not require collateral. Our credit terms generally range between 30 and 90 days from invoice date, depending upon the evaluation of the customer s financial condition and history. We monitor our customers credit and financial condition in order to assess whether the economic conditions have changed and adjust our credit policies with respect to any individual customer as we determine appropriate. These adjustments may include, but are not limited to, restricting shipments to customers, reducing credit limits, shortening credit terms, requiring cash payments in advance of shipment or securing credit insurance.

See Note 3, Significant Accounting Policies and Practices, of our Consolidated Financial Statements for more information about our revenue recognition and credit policies.

Defined Benefit Plan Assumptions

Our accounting for pension benefits is primarily based on a discount rate, expected and actual return on plan assets and other assumptions made by management, and is impacted by outside factors such as equity and fixed income market performance. Pension liability is principally the estimated present value of future benefits, net of plan assets. In calculating the estimated present value of future benefits, net of plan assets, we used discount rates of 3.8% to 13.6% in Fiscal 2010 and 5.0% to 11.8% in Fiscal 2009. These rates are based on market interest rates, and therefore fluctuations in market interest rates could impact the amount of pension income or expense recorded for these plans. Despite our belief that the estimates are reasonable for these key actuarial assumptions, future actual results may differ from estimates, and these differences could be material to future financial statements.

The discount rate enables a company to state expected future cash flows at a present value on the measurement date. We have little latitude in selecting this rate as it is based on a review of projected cash flows and on high-quality fixed income investments at the measurement date. A lower discount rate increases the present value of benefit obligations and generally increases pension expense. The expected long-term rate of return reflects the average rate of earnings expected on funds invested or to be invested in the pension plans to provide for the benefits included in the pension liability. We believe the discount rates used are reflective of the rates at which the pension benefits could be effectively settled.

Pension expense is principally the sum of interest and service cost of the plan, less the expected return on plan assets and the amortization of the difference between our assumptions and actual experience. The expected return on plan assets is calculated by applying an assumed rate of return to the fair value of plan assets. We used expected returns on plan assets of 4.5% to 8.8% in Fiscal 2010 and 4.5% to 8.0% in Fiscal 2009. Based on the advice of our independent actuaries, we believe the expected rates of return are reflective of the long-term average rate of earnings expected on the funds invested. If such expected returns were overstated, it would ultimately increase future pension expense. Similarly, an understatement of the expected return would ultimately decrease future pension expense. If plan assets decline due to poor performance by the markets and/or interest rate declines our pension liability will increase, ultimately increasing future pension expense.

Differences in actual experience or changes in the assumptions may materially affect our financial position or results of operations. Actual results that differ from the actuarial assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods.

See Note 10, Employee Benefit Plans, of our Consolidated Financial Statements for a more complete discussion of employee benefit plans.

Restructuring and Related Charges

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

Liabilities from restructuring and related charges are recorded for estimated costs of facility closures, significant organizational adjustment and measures undertaken by management to exit certain activities. Costs for such activities are estimated by management after evaluating detailed analyses of the cost to be incurred. Such liabilities could include amounts for items such as severance costs and related benefits (including settlements of pension plans), impairment of property and equipment and other current or long term assets, lease termination payments and any other items directly related to the exit activities. While the actions are carried out as expeditiously as possible, restructuring and related charges are estimates. Changes in estimates resulting in an increase to or a reversal of a previously recorded liability may be required as management executes a restructuring plan.

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

We report restructuring and related charges associated with administrative functions in Restructuring and related charges, such as initiatives impacting sales, marketing, distribution or other non-manufacturing related functions. Restructuring and related charges reflected in Restructuring and related charges include, but are not limited to, termination and related costs, any asset impairments relating to the administrative functions and other costs directly related to the initiatives implemented.

The costs of plans to (i) exit an activity of an acquired company, (ii) involuntarily terminate employees of an acquired company or (iii) relocate employees of an acquired company are measured and recorded in accordance with the provisions of the ASC 805. Under ASC 805, if certain conditions are met, such costs are recognized as a liability assumed as of the consummation date of the purchase business combination and included in the allocation of the acquisition cost. Costs related to terminated activities or employees of the acquired company that do not meet the conditions prescribed in ASC 805 are treated as restructuring and related charges and expensed as incurred.

See Note 14, Restructuring and Related Charges, of our Consolidated Financial Statements for a more complete discussion of our restructuring initiatives and related costs.

Loss Contingencies

Loss contingencies are recorded as liabilities when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The outcome of existing litigation, the impact of environmental matters and pending or potential examinations by various taxing authorities are examples of situations evaluated as loss contingencies. Estimating the probability and magnitude of losses is often dependent upon management s judgment of potential actions by third parties and regulators. It is possible that changes in estimates or an increased probability of an unfavorable outcome could materially affect our business, financial condition or results of operations.

See further discussion in Note 12, Commitments and Contingencies, of our Consolidated Financial Statements.

Deferred Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized in earnings in the period that includes the enactment date. Additionally, taxing jurisdictions could retroactively disagree with our tax treatment of certain items, and some historical transactions have income tax effects going forward. Accounting guidance requires these future effects to be evaluated using current laws, rules and regulations, each of which can change at any time and in an unpredictable manner.

In accordance with ASC 740, we establish valuation allowances for deferred tax assets when we estimate it is more likely than not that the tax assets will not be realized. We base these estimates on projections of future income, including tax-planning strategies, by individual tax jurisdictions. Changes in industry and economic conditions and the competitive environment may impact the accuracy of our projections. In accordance with ASC 740, during each reporting period we assess the likelihood that our deferred tax assets will be realized and determine if adjustments to the valuation allowance are appropriate. As a result of this assessment, during Fiscal 2009 Spectrum Brands recorded a reduction in the valuation allowance of approximately $363 million. Of the $363 million total, $314 million was recorded as a non-cash deferred income tax benefit and $49 million as a reduction to goodwill. During Fiscal 2008 Spectrum Brands recorded a non-cash deferred income tax charge of approximately $200 million related to increasing the valuation allowance against our net deferred tax assets. As of September 30, 2010, our consolidated valuation allowance was $340 million.

We also apply the accounting guidance for uncertain tax positions which prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides information on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. Accrued interest expense and penalties related to uncertain tax positions are recorded in Benefit from (provision for) income taxes. Our reserve for uncertain tax positions totaled $13.2 million as of September 30, 2010.

See further discussion in Note 8, Income Taxes, of our Consolidated Financial Statements.

We continually update and assess the facts and circumstances regarding these critical accounting matters and other significant accounting matters affecting estimates in our financial statements.

Quantitative and Qualitative Disclosures About Market Risk

Market Risk Factors

We, through our principal subsidiary at April 3, 2011, Spectrum Brands Holdings, have market risk exposure from changes in interest rates, foreign currency exchange rates and commodity prices. Spectrum Brands Holdings uses derivative financial instruments for purposes other than trading to mitigate the risk from such exposures.

Interest Rate Risk

Spectrum Brands Holdings has bank lines of credit at variable interest rates. The general level of U.S. interest rates, LIBOR and EURIBOR affect interest expense. Spectrum Brands Holdings uses interest rate swaps to manage such risk. The net amounts to be paid or received under interest rate swap agreements are accrued as interest rates change, and are recognized over the life of the swap agreements as an adjustment to interest expense from the underlying debt to which the swap is designated. The related amounts payable to, or receivable from, the contract counter-parties are included in accrued liabilities or accounts receivable.

Foreign Exchange Risk

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

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Commodity Price Risk

Spectrum Brands Holdings is exposed to fluctuations in market prices for purchases of raw materials used in the manufacturing process, particularly zinc. Spectrum Brands Holdings uses commodity swaps and calls to manage such risk. The maturity of, and the quantities covered by, the contracts are closely correlated to our anticipated purchases of the commodities. The cost of calls are amortized over the life of the contracts and are recorded in cost of goods sold, along with the effects of the swap and call contracts. The related amounts payable to, or receivable from, the counter-parties are included in accounts payable or accounts receivable.

Sensitivity Analysis

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

At April 3, 2011, the potential change in fair value of outstanding interest rate derivative instruments, assuming a one percentage point unfavorable shift in the underlying interest rates would be a loss of $0.1 million. The net impact on reported earnings, after also including the reduction in one year s interest expense on the related debt due to the same shift in interest rates, would be a net gain of $0.2 million. As of September 30, 2010, the potential change in fair value of outstanding interest rate derivative instruments, assuming a 1 percentage point unfavorable shift in the underlying interest rates would result in a loss of $0.3 million. The net impact on reported earnings, after also including the reduction in one year s interest expense on the related debt due to the same shift in interest rates, would be a net loss of $0.3 million. As of September 30, 2009, there were no interest rate derivative instruments outstanding.

At April 3, 2011, the potential change in fair value of outstanding foreign exchange derivative instruments, assuming a 10% unfavorable change in the underlying exchange rates would be a loss of $56.8 million. The net impact on reported earnings, after also including the effect of the change in the underlying foreign currency-denominated exposures, would be a net gain of $16.8 million. As of September 30, 2010, the potential change in fair value of outstanding foreign exchange derivative instruments, assuming a 10% unfavorable change in the underlying exchange rates would be a loss of $63.4 million. The net impact on reported earnings, after also including the effect of the change in the underlying foreign currency-denominated exposures, would be a net gain of $8.9 million. The same hypothetical shift in exchange rates as of September 30, 2009, would have resulted in a loss of $10.8 million. The net impact on reported earnings, after also including the effect of the change in the underlying foreign currency-denominated exposures, would be a net gain of $10.8 million.

At April 3, 2011, the potential change in fair value of outstanding commodity price derivative instruments, assuming a 10% unfavorable change in the underlying commodity prices would be a loss of $2.8 million. The net impact on reported earnings, after also including the reduction in cost of one year s purchases of the related commodities due to the same change in commodity prices, would be a net gain of $0.6 million. As of September 30, 2010, the potential change in fair value of outstanding commodity price derivative instruments, assuming a 10% unfavorable change in the underlying commodity prices would be a loss of $3.3 million. The net impact on reported earnings, after also including the reduction in cost of one year s purchases of the related commodities due to the same change in commodity prices, would be a net loss of $0.3 million. The same hypothetical shift in commodity prices as of September 30, 2009 would have resulted in a loss of $1.5 million. The net impact on reported earnings, after also including the reduction in cost of one year s purchases of the related commodities due to the same change in commodity prices, would be a net gain of $0.8 million.

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BUSINESS

Our Company

We are a holding company that is majority owned by the Harbinger Parties. 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. As of April 3, 2011, after giving effect to the issuance of the initial notes, the payment of periodic interest on the existing notes that was due on May 15, 2011, the Fidelity & Guaranty Acquisition and the Preferred Stock Issuance, but excluding cash, cash equivalents and short-term investments held by Harbinger F&G or Spectrum Brands Holdings, we would have had approximately $500 million in cash, cash equivalents and short-term investments, which includes $300 million that was subsequently transferred to our wholly-owned subsidiary, HGI Funding, LLC. 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.

We intend to make investments in companies that we consider to be undervalued or fairly valued with attractive assets or businesses. We intend to seek long-term investments that are able to generate high returns and significant cash flow to maximize long-term value for our stockholders. We are focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries. We view the Spectrum Brands Acquisition and the Fidelity & Guaranty Acquisition as the first steps in the implementation of that strategy. We have identified the following six sectors in which we intend to pursue investment opportunities: consumer products, insurance and financial products, telecommunications, agriculture, power generation and water and natural resources. 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.

In pursuing our strategy, we utilize the investment expertise and industry knowledge of Harbinger Capital, a multi-billion dollar private investment firm based in New York, and an affiliate of the Harbinger Parties. We believe that the team at Harbinger Capital has a track record of making successful investments across various industries. We believe that our affiliation with Harbinger Capital will enhance our ability to identify and evaluate potential acquisition opportunities appropriate for a permanent capital vehicle. Our corporate structure provides significant advantages compared to the traditional hedge-fund structure for long-term holdings as our sources of capital are longer term in nature and thus will more closely match our principal investment strategy. In addition, our corporate structure provides additional options for funding acquisitions, including the ability to use our common stock as a form of consideration.

Philip Falcone, who serves as Chairman of the Board, Chief Executive Officer and President, has been the Chief Investment Officer of the Harbinger Capital affiliated funds since 2001. Mr. Falcone has over two decades of experience in leveraged finance, distressed debt and special situations. In addition to Mr. Falcone, Harbinger Capital employs a wide variety of professionals with expertise across various industries, including our targeted sectors.

Our Strategy

The key elements of our business strategy will include the following:

Seek to acquire attractively valued assets. We intend to make investments in companies that we consider to be undervalued or fairly valued with attractive assets or businesses. We intend to seek long-term investments that are able to generate high returns and significant cash flow to maximize long-term value for our stockholders. We plan to utilize our relationship with Harbinger Capital to identify and evaluate acquisition opportunities. We intend to seek a variety of investment opportunities, including investments in companies where we believe a catalyst for value realization is already present or where we can engage with companies to unlock value. We also intend to seek investments in companies that are in default, bankruptcy or in some other stage of financial failure or distress. Over time, we plan to become a holding company focused on obtaining controlling equity stakes in subsidiaries that operate across a diversified set of industries. 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.

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

Focused investment philosophy. We intend to employ a focused investment philosophy to seek out investments that may exhibit one or more of the following underlying characteristics:

Scarcity Situations with finite resources where we believe we can clearly quantify and impact supply/demand dynamics;

Complexity Government, legal and regulatory controls can be onerous; we believe our ability to navigate this complexity provides us with a substantial advantage; and

Action We believe our ability to actively engage with companies and work with them to encourage consolidation, restructuring or other corporate action creates a catalyst to unlock value.

Competition

We may pay acquisition consideration in the form of cash, our debt or equity securities, or a combination thereof. In addition, as a part of our acquisition strategy we may consider raising additional capital through the issuance of equity or debt securities, including the issuance of further shares of Preferred Stock. We believe that our status as a public entity with potential access to the public equity markets may give us a competitive advantage over privately-held entities with a similar business objective to acquire certain target businesses on favorable terms. While we generally focus our attention in the United States, we may investigate acquisition opportunities outside of the United States when we believe that such opportunities might be attractive.

In identifying, evaluating and selecting a target business, we may encounter intense competition from other entities having similar business objectives such as strategic investors, private equity groups and special purpose acquisition corporations. Many of these entities are well established and have extensive experience identifying and effecting business combinations directly or through affiliates. Many of these competitors may possess greater technical, human and other resources than us, and our financial resources may be relatively limited when contrasted with many of these competitors. Any of these factors may place us at a competitive disadvantage in successfully negotiating a business combination.

The Harbinger Parties and their affiliates include other vehicles that actively are seeking investment opportunities, and any one of those vehicles may at any time be seeking investment opportunities similar to those targeted by us. Our directors and officers who are affiliated with the Harbinger Parties may consider, among other things, asset type and investment time horizon in evaluating opportunities for us. In recognition of the potential conflicts that these persons and our other directors may have with respect to corporate opportunities, our amended and restated certificate of incorporation permits our board of directors from time to time to assert or renounce our interests and expectancies in one or more specific industries. In accordance with this provision, we have determined that we will not seek business combinations or acquisitions of businesses engaged in the wireless communications industry. However, a renunciation of interests and expectancies in specific industries does not preclude us from seeking business acquisitions in those industries. We have had discussions regarding potential investments in various industries, including wireless communications.

Employees

At April 3, 2011, we employed nine persons. In the normal course of business, we use contract personnel to supplement our employee base to meet our business needs. We believe that our employee relations are generally satisfactory. We intend to hire additional employees as a result of our growth and the increasing complexity of our business.

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Properties

Our principal executive office is located at 450 Park Avenue, 27th Floor, New York, New York 10022, where we lease approximately 2,350 square feet of office space.

Legal and Environmental Matters Regarding Our Business

We are 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.

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

Spectrum Brands Holdings

Spectrum Brands Holdings is a global branded consumer products company with leading market positions in seven major product categories: consumer batteries, pet supplies, home and garden control, electric shaving and grooming, electric personal care, portable lighting products and small appliances. Spectrum Brands Holdings is a leading worldwide marketer of alkaline, zinc carbon, hearing aid and rechargeable batteries, battery-powered lighting products, electric shavers and accessories, grooming products and hair care appliances, aquariums and aquatic health supplies, specialty pet supplies, insecticides, repellants and herbicides.

Spectrum Brands Holdings manages its businesses in three vertically integrated, product-focused reporting segments:

- Global Batteries & Appliances, which consists of its worldwide battery, electric shaving and grooming, electric personal care, portable lighting business and small appliances primarily in the kitchen and home product categories;
- Global Pet Supplies, which consists of its worldwide pet supplies business; and
- Home and Garden Business, which consists of its home and garden and insect control business.

Spectrum Brands Holdings sells its products in approximately 130 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and OEMs and enjoy strong name recognition in our 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-l, Spectracide, Cutter, Black & Decker, George Foreman, Russell Hobbs, Farberware and various other brands.

Spectrum Brands Holdings strategy is to provide quality and value to retailers and consumers worldwide. Most of its 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 Holdings goal is to provide the highest returns to its customers and retailers, and to offer superior merchandising and category management. Its promotional spending focus is on winning at the point of sale, rather than incurring significant advertising expenses. Spectrum Brands Holdings operates in several business categories in which it believes there are high barriers to entry and Spectrum Brands Holdings strives to achieve a low cost structure with a global shared services administrative structure, helping it to maintain attractive margins. This operating model, which Spectrum Brands Holdings refers to as the Spectrum value model, is what Spectrum Brands Holdings believes will drive returns for investors and customers.

F&G Holdings

F&G Holdings is a provider of annuity and life insurance products in the United States. Based in Baltimore, Maryland, F&G Holdings operates its annuity and life insurance operations in the United States through its subsidiaries FGL Insurance and FGL NY Insurance.

F&G Holdings principal products are immediate annuities, deferred annuities (including fixed indexed annuities) and life insurance products (including fixed indexed universal life), which it sells, as of March 31, 2011, through a network of approximately 300 IMOs representing approximately 25,000 independent agents and managing general agents. As of March 31, 2011, F&G Holdings had approximately 790,000 policyholders nationwide and distributes its products throughout the United States.

F&G Holdings deferred annuities include fixed index annuities and fixed rate annuities. Fixed indexed annuities allow contract owners the possibility of earning credits based on the performance of a specified market index without risk to principal. The value to the contractholder of a fixed indexed annuity 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.

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 we have the discretionary ability to change the crediting rate based on the guaranteed period of the contract at a rate above the guaranteed minimum rate.

Immediate annuities provide a fixed amount of income for either a defined number of years, the annuitant s lifetime or the longer of a defined number of years or the annuitant s lifetime, in exchange for a single premium.

F&G Holdings offers indexed universal life insurance policies. Holders of universal life insurance policies earn returns on their policies which are credited to the policyholder s account value. The insurer periodically deducts its expenses and the cost of life insurance protection from the account value. The balance of the account value is credited interest at a fixed rate or returns based on the performance of a market index, or both, at the option of the policyholder, using a method similar to that described above for fixed indexed annuities.

F&G Holdings 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 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 its ability to manage interest rates credited to policyholders and costs of the options purchased to fund the annual index credits on the fixed index annuity.

Under GAAP, premium collections for deferred annuities and immediate annuities without life contingency are reported as deposit liabilities (i.e., contractholder funds) instead of as revenues. Earnings from products accounted for as deposit liabilities 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 investment spread. With respect to fixed index annuities, 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 interest credited to annuity contractholder fund balances.

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Performance highlights for the quarter ended March 31, 2011 and the three years ended December 31, 2010, 2009 and 2008:

Annuity sales decreased 27% from $196 million for the quarter ended March 31, 2010 to $143 million for the quarter ended March 31, 2011. Annuity sales for the year ended December 31, 2010 grew 61% to $1.0 billion compared to 2009 annuity sales of $636 million. Annuity sales for the year ended December 31, 2009 decreased 61% compared to 2008 annuity sales of $1.6 billion. The decrease in 2009 sales and increase in 2010 sales was a result of its shift from a capital preservation initiative in 2009 to a growth strategy in 2010. 2011 first quarter sales were lower principally due to general uncertainties associated with the timing of the sale of the company, including its impact on the introduction and rating of new products.

Total invested assets were $15.8 billion at March 31, 2011 compared to total invested assets of $15.9 billion and $15.1 billion at December 31, 2010 and 2009, respectively. The increase in total invested assets in 2010 was primarily due to increase in market valuations as a result of overall improvements in the credit markets.

Investment spread margin over the cost of money (defined as credited rate plus option cost) on annuity deposits was 2.21% for the quarter ended March 31, 2011 compared to 2.35%, 2.07% and 2.20% at December 31, 2010, 2009 and 2008, respectively.

Other-than-temporary impairments for the quarter ended March 31, 2011 were $2.9 million compared to impairments of $5.8 million for the same period last year. Other-than-temporary impairments decreased to $86.1 million for the year ended December 31, 2010, compared to impairments of $319 million and $464 million for the years ended December 31, 2009 and 2008, respectively. The decrease in 2010 and 2011 is a result of improvements in the recovery of credit markets and reflects the implementation of its de-risking strategy.

Estimated risk-based capital (RBC) ratio at December 31, 2010 and 2009 was approximately 350% and 312% (at company action level RBC), respectively.

Total sales, a significant portion of which are accounted for as deposit liabilities instead of revenues, were $207 million for the quarter ended March 31, 2011 compared to total sales of $263 million for the prior year period. Total sales of $1.3 billion for the year ended December 31, 2010 represented a 38% increase year over year. The increase in sales in 2010 highlighted the company s change in strategy after a more conservative approach in 2009 to preserve capital during the economic downturn. Fixed index annuities have become the dominant product within the fixed annuity market and industry growth is expected to continue as individuals nearing retirement increasingly seek fixed annuity benefits. Such benefits include guaranteed account values, guaranteed life time income, and competitive annual fixed and indexed interest rates.

F&G Holding s total invested assets were $15.8 billion and $15.9 billion at March 31, 2011 and December 31, 2010, respectively. F&G Holdings executed a strategy of managing a steady investment spread margin on aggregate yield on invested assets over the cost of money on its annuity liabilities. For the quarter ended March 31, 2011 the aggregate yield on invested assets was 5.46% (annualized), compared to 5.72%, 6.29% and 7.43% for the year ended December 31, 2010, 2009 and 2008, respectively. The aggregate cost of money also declined to 3.22% (annualized) for the quarter ended March 31, 2011 compared to 3.28% and 3.67% in 2010 and 2009, respectively. The reduction in the cost of money arose primarily from its decision in 2010 to reduce crediting and index rates available on annuities in response to falling yields.

With the growth in total invested assets and expected future statutory earnings from such assets, management believes the company s statutory capital and surplus will remain at satisfactory levels to support continued growth in annuity sales at the present rate. Management monitors sales trends and capital adequacy on a continuous basis.

Products

Annuity Products

F&G Holdings, through its insurance subsidiaries, issues a broad portfolio of deferred annuities (fixed indexed and fixed rate annuities) and immediate annuities. A deferred annuity is a type of contract that accumulates value on a tax deferred basis and typically begins making specified periodic or lump sum payments a certain number of years after the contract has been issued. An immediate annuity is a type of contract that begins making specified payments within one annuity period (e.g. one month or one year) and typically pays principal and earnings in equal payments over some period of time.

As part of its significant product consolidation, FGL Insurance and FGL NY Insurance reduced from 51 in 2008 to 21 in 2011 the number of products in their portfolios of annuity products. The following table presents the deposits on annuity policies issued by FGL Insurance and FGL NY Insurance, as well as reserves required by accounting principles generally accepted in the United States (GAAP Reserves), for the fiscal years 2009 and 2010:

	Deposits on Annuity Policies		GAAP Reserves	
	2009	**2010**	**2009**	**2010**
	(In millions)			
Products				
Fixed Indexed Annuities	$ 599	$ 755	$ 9,592	$ 9,327
Fixed Rate Annuities	$ 47	$ 253	$ 3,384	$ 3,430
Single Premium Immediate Annuities	$ 192	$ 245	$ 3,713	$ 3,599
Total	$ 838	$ 1,253	$ 16,689	$ 16,356

Deferred Annuities

Fixed Indexed Annuities. FGL Insurance s fixed indexed annuities allow contract owners the possibility of earning credits based on the performance of a specified market index without risk to principal. The contracts include a provision for a minimum guaranteed surrender value calculated in accordance with applicable law. A market index tracks the performance of a specific group of stocks representing a particular segment of the market, or in some cases an entire market. For example, the S&P 500 Composite Stock Price Index is an index of 500 stocks intended to be representative of a broad segment of the market. Most fixed indexed annuity policies allow policyholders to allocate funds once a year among several different crediting strategies, including one or more index based strategies and a traditional fixed rate strategy.

The value to the contractholder of a fixed indexed annuity contract is equal to the sum of deposits paid, premium bonuses (described below) 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 (based in certain situations on monthly averages or monthly point-to-point calculations) in a recognized index or benchmark. Caps generally range from 3.5% to 6% when measured annually and 1.5% to 5.2% when measured monthly and participation rates generally range from 30% to 100%, of the performance of the applicable market index.

Approximately 90% and 80% of the fixed indexed annuity sales for the years ending December 31, 2010 and December 31, 2009, respectively, involved premium bonuses by which FGL Insurance and FGL NY Insurance increased the initial annuity deposit by a specified premium bonus of 3% and vested bonus of 5% to 8%. FGL Insurance and FGL NY Insurance made compensating adjustments in the commission paid to the agent or the surrender charges on the policy to offset the premium bonus.

Fixed Rate Annuities. Fixed rate annuities include annual reset and multi-year rate guaranteed policies. Fixed rate annual reset annuities issued by FGL Insurance and FGL NY Insurance have an annual interest rate (the crediting rate) that is guaranteed for the first policy year. After the first policy year, FGL Insurance and FGL NY Insurance have the discretionary ability to change the crediting rate once annually to any rate at or above a guaranteed minimum rate. Fixed rate multi-year guaranteed annuities are similar to fixed rate annual reset annuities except that the initial crediting rate is guaranteed for a specified number of years before it may be changed at the discretion of FGL Insurance and FGL NY Insurance. For fiscal year 2010, FGL Insurance and FGL NY Insurance did not sell any fixed rate annual reset annuities. For fiscal year 2010, FGL Insurance and FGL NY Insurance sold $253 million of fixed rate multi-year guaranteed annuities. As of December 31, 2010, crediting rates on outstanding (i) fixed rate annuities generally ranged from 1.5% to 6.0% and (ii) multi-year guaranteed annuities ranged from 1.5% to 6.25%. The average crediting rate on all outstanding fixed rate annuities at December 31, 2010 was 4.35%.

Withdrawal Options for Deferred Annuities. After the first year following the issuance of a deferred annuity policy, holders of deferred annuities are typically permitted penalty-free withdrawals up to 10% of the prior year s value, subject to certain limitations. Withdrawals in excess of allowable penalty-free amounts are assessed a surrender charge if such withdrawals are made during the penalty period of the deferred annuity policy (a surrender charge). The penalty period typically ranges from 5 to 14 years for fixed indexed annuities and 3 to 10 years for fixed rate annuities. This surrender charge initially ranges from 9% to 17.5% of the contract value for fixed index annuities and 5% to 12% of the contract value for fixed rate annuities and generally decreases by approximately one to two percentage points per year during the penalty period. Certain annuity contracts contain a market value adjustment provision that may increase or decrease the amounts available for withdrawal upon full surrender. The policyholder may elect to take the proceeds of the surrender either in a single payment or in a series of payments over the life of the policyholder or for a fixed number of years (or a combination of these payment options). In addition to the foregoing withdrawal rights, policyholders may also elect to have additional withdrawal rights by purchasing a guaranteed minimum withdrawal benefit.

Immediate Annuities

FGL Insurance and FGL NY Insurance also sell single premium immediate annuities (SPIAs), which provide a series of periodic payments for a fixed period of time or for the life of the policyholder, according to the policyholder s choice at the time of issue. The amounts, frequency and length of time of the payments are fixed at the outset of the annuity contract. SPIAs are often purchased by persons at or near retirement age who desire a steady stream of payments over a future period of years.

Life Insurance

FGL Insurance and FGL NY Insurance offer indexed universal life insurance policies. Holders of universal life insurance policies earn returns on their policies which are credited to the policyholder s cash value account. The insurer periodically deducts its expenses and the cost of life insurance protection from the cash value account. The balance of the cash value account is credited interest at a fixed rate or returns based on the performance of a market index, or both, at the option of the policyholder, using a method similar to that described above for fixed indexed annuities.

For their 2009 and 2010 fiscal years, FGL Insurance and FGL NY Insurance have together written approximately $63 million in premiums for indexed universal life insurance policies. As part of their significant product consolidations, FGL Insurance and FGL NY Insurance reduced from nine in 2008 to two in 2011 the number of products in their life insurance product portfolios.

As of December 31, 2010, FGL Insurance and FGL NY Insurance together have issued approximately $1.51 billion (face amount), net, in life insurance policies. The collective premiums generated by total indexed life insurance policies issued by FGL Insurance and FGL NY Insurance for fiscal years 2009 and 2010 was $32.4 million and $30.5 million, respectively.

A significant portion of the indexed universal life business is subject to a pending reinsurance arrangement with Wilton Re. See F&G Stock Purchase Agreement and Related Arrangements Wilton Transaction.

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Investments

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

F&G Holdings investment portfolio is designed to provide a stable earnings contribution and balanced risk portfolio across asset classes and is primarily invested in high quality corporate bonds with low exposure to consumer-sensitive sectors. See Note 2 to the Consolidated Financial Statements of F&G Holdings with respect to F&G Holdings accounting policies for the impairment of investments.

As of March 31, 2011, F&G Holdings investment portfolio was approximately $16.7 billion and was divided among the following asset classes:

Asset Class	**As of March 31, 2011**
Corporate-investment grade	68.2%
Corporate-non-investment grade	4.4%
U.S. government and agency obligations	3.9%
Residential mortgage-backed securities	3.3%
Commercial mortgage-backed securities	3.8%
Asset-backed securities	3.2%
Other (cash & cash equivalents, derivatives, municipals, equity securities and other invested assets)	13.2%
Total	100%

As of March 31, 2011, F&G Holdings fixed income portfolio was approximately $15.2 billion. The approximate percentage distribution of F&G Holdings fixed income portfolio by composite ratings distribution was as follows:

Rating	**As of March 31, 2011**
AAA	9.7%
AA	7.2%
A	25.3%
BBB	51.2%
BB	3.8%
B and below	2.3%
Not rated	0.5%

Currently, F&G Holdings does not act as asset manager for its investment assets. Since September 2009, F&G Holdings lead portfolio manager has been Goldman Sachs Asset Management (Goldman Sachs). Goldman Sachs actively manages F&G Holdings in-force and new business cash. As of March 31, 2011, Goldman Sachs had approximately $15.8 billion of F&G Holdings assets under management.

Derivatives

F&G Holdings fixed indexed annuity contracts (the FIA Contracts) permit the holder to elect to receive a return based on an interest rate or the performance of a market index. F&G Holdings uses a portion of the deposit made by policyholders pursuant to the FIA Contracts to purchase derivatives consisting of a combination of call options and futures contracts on the equity indices underlying the applicable policy. These derivatives are used to fund the index credits due to policyholders under the FIA Contracts. The majority of

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all such call options are one-year options purchased to match the funding requirements underlying the FIA Contracts. On the respective anniversary dates of the applicable FIA Contracts, the market index used to compute the annual index credit under the applicable FIA Contract is reset. At such time, F&G Holdings purchases new one-, two- or three-year call options to fund the next index credit. F&G Holdings attempts to manage the cost of these purchases through the terms of its FIA Contracts, which permit F&G Holdings to change caps or participation rates, subject to certain guaranteed minimums that must be maintained. The change in the fair value of the call options and futures contracts is designed to offset the change in the fair value of the FIA Contract s embedded derivative. The call options and futures contracts are marked to fair value with the change in fair value included as a component of net investment gains (losses). The change in fair value of the call options and futures contracts includes the gains and losses recognized at the expiration of the instruments terms or upon early termination and the changes in fair value of open positions.

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

Marketing and Distribution

F&G Holdings offers its products through a network of approximately 300 IMOs, representing approximately 25,000 agents, and identifies its most important 34 IMOs as Power Partners . F&G Holdings Power Partners are currently comprised of 22 annuity IMOs and 12 life insurance IMOs. In fiscal year 2010, these Power Partners accounted for approximately 62% of F&G Holdings annual sales volume. F&G Holdings believes that its relationships with these IMOs are strong. The average tenure of the top ten Power Partners is approximately 12 years.

F&G Holdings Power Partners play an important role in the development of F&G Holdings products. Over the last ten years, the majority of F&G Holdings best selling products have been developed in conjunction with its Power Partners. F&G Holdings intends to continue to have the Power Partners play an important role in the development of its products in the future, which it believes provides it with integral feedback throughout the development process and assists it with competing for shelf space for new design launches.

In 2003 F&G Holdings introduced a rewards program, the Power Agent Incentive Rewards (PAIR) Program, to incentivize annuity product sales and strengthen distributor relationships. The PAIR Program is structured as a non-contributory deferred compensation program that allows select producers to share in profitability of new product sales. F&G Holdings believes the PAIR Program drives loyalty amongst top producers and incentivizes them to focus on profitable sales. Over the past five years, PAIR agents have produced nearly 29% of F&G Holdings total deferred annuity sales. As of March 31, 2011, there was approximately $14.3 million in PAIR vested account balances.

A PAIR Program for life insurance products was introduced in 2009 and operates substantially in the same manner as the PAIR Program for annuities. As of March 31, 2011, F&G Holdings had 7 participants in the life PAIR Program and $96,323 in PAIR account balances of which $7,213 was vested.

Outsourcing

In addition to services provided by third-party asset managers, F&G Holdings outsources the following functions to third-party service providers:

new business administration,

hosting of financial systems,

service of existing policies,

call centers, and

underwriting administration of life insurance applications.

F&G Holdings closely manages its outsourcing partners and integrates their services into its operations. F&G Holdings believes that outsourcing such functions allows it to focus capital and personnel resources on its core business operations and perform differentiating functions, such as actuarial, product development and risk management functions. In addition, F&G Holdings believes an outsourcing model provides predictable pricing, service levels and volume capabilities and allows it to exploit technological developments to enhance its customer self-service and sales processes that it may not be able to take advantage of if it were required to deploy its own capital.

F&G Holdings outsources its new business and existing policy administration for fixed indexed annuity and life products to Transaction Applications Group, Inc., a subsidiary at Dell Inc. (Transaction Group). Under this arrangement, Transaction Group manages all of F&G Holdings call center and processing requirements. F&G Holdings and Transaction Group have entered into a seven-year relationship expiring in June 2014.

F&G Holdings has partnered with Hooper Holmes, Inc. (Hooper Holmes) to outsource its life insurance underwriting function. Under the terms of the arrangement Hooper Holmes has assigned F&G Holdings a team of five underwriters with Fellow Management Life Institute. F&G Holdings and Hooper Holmes have entered into a three-year relationship expiring in December 2012.

F&G Holdings believes that it has a good relationship with its principal outsource service providers.

Competition and Ratings

F&G Holdings ability to compete is dependent upon many factors which include, 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 ratings agencies.

Following is a summary of the financial strength ratings of FGL Insurance and its wholly-owned subsidiary, FGL NY Insurance:

Agency	**Report Date**	**Financial Strength Rating**	**Outlook Statement**
Moody s	November 3, 2010	Ba1	Stable
	August 6, 2010	Baa3	On review for possible downgrade
	March 11, 2010	Baa3	Developing
Fitch	April 7, 2011	BBB	Stable
	August 9, 2010	BB	Positive
	March 29, 2010	BB	Rating watch evolving
	March 11, 2010	BBB−	Rating watch negative
A.M. Best	August 12, 2010	B++	Stable
	March 11, 2010	A−	Under review with developing implications

Financial strength ratings generally involve quantitative and qualitative evaluations by rating agencies of a company s financial condition and operating performance. Generally, rating agencies base their ratings upon information furnished to them by the insurer and upon their own investigations, studies and assumptions. Ratings are based upon factors of concern to policyholders, agents and intermediaries and are not directed toward the protection of investors and are not recommendations to buy, sell or hold securities.

In addition to the financial strength ratings, rating agencies use an outlook statement to indicate a medium or long term trend which, if continued, may lead to a rating change. A positive outlook indicates a rating may be raised and a negative outlook indicates a rating may be lowered. A stable outlook is assigned when ratings are not likely to be changed. Outlooks should not be confused with expected stability of the issuer s financial or economic performance. A rating may have a stable outlook to indicate that the rating is not expected to change, but a stable outlook does not preclude a rating agency from changing a rating at any time without notice.

Moody s ratings currently range from Aaa (Exceptional) to C (Poor). Within Moody s investment grade categories, Aa (Exceptional) and Aa (Excellent) are the highest, followed by A (Good) and Baa (Good). The first two speculative grade categories are Ba (questionable) and B (poor). Publications of Moody s indicate that Moody s assigns a Ba1 rating to companies that have a moderate (and thereby not well safeguarded) ability to meet their ongoing obligations to policyholders.

Fitch ratings currently range from AAA (reliable and stable) to D (defaulted on obligations and will generally default on most or all obligations). Within Fitch s investment grade categories, AAA (reliable and stable) and AA (reliable and stable) are the highest, followed by A (economic situation can affect financial situation) and BBB (satisfactory). The first two non-investment grade categories are BB (financial situation prone to changes) and B (financial situation noticeably changes). Fitch also uses intermediate +/− modifiers for each category between AA and CCC. Accordingly, BBB+ is a higher investment grade than a BBB which in turn is a higher investment grade than a BBB- . Publications of Fitch indicate that Fitch assigns ratings according to strength of a company and a BBB rating is qualified as satisfactory on its scale.

A.M. Best Company ratings currently range from A++ (Superior) to F (In Liquidation), and include 16 separate ratings categories. Within these categories, A++ (Superior) and A+ (Superior) are the highest, followed by A (Excellent) and A− (Excellent) then followed by B++ (Good) and B+ (Good). Publications of A.M. Best Company indicate A.M. Best Company assigns a B++ rating to companies that have a good ability to meet their ongoing obligations to policyholders.

A.M. Best Company, Fitch and Moody s review their ratings of insurance companies from time to time. There can be no assurance that any particular rating will continue for any given period of time or that it will not be changed or withdrawn entirely if, in their judgment, circumstances so warrant. While the degree to which ratings adjustments will affect sales and persistency is unknown, we believe if F&G Holdings ratings were to be negatively adjusted for any reason, it could experience a material decline in the sales of its products and the persistency of its existing business. See Risk Factors Risks Related to F&G Holdings Business F&G Holdings 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 F&G Holdings business, financial condition and results of operations; Risk Factors Risks Related to F&G Holdings Business A financial strength ratings downgrade or other negative action by a ratings organization could adversely affect F&G Holdings financial condition and results of operations; and Risk Factors Risks Related to F&G Holdings Business The amount of statutory capital that F&G Holdings insurance subsidiaries have and the amount of statutory capital that they must hold to maintain its 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 F&G Holdings control.

Risk Management

Risk management is a critical part of F&G Holdings business. F&G Holdings seeks to assess risk to its business through a formalized process involving (i) identifying short-term and long-term strategic and operational objectives, (ii) utilizing risk identification tools to examine events that may prevent F&G Holdings from achieving goals, (iii) assigning risk identification and mitigation responsibilities to individual team members within functional groups, (iv) analyzing the potential qualitative and quantitative impact of individual risks, (v) evaluating risks against risk tolerance levels to determine which risks should be mitigated, (vi) mitigating risks by appropriate actions and (vii) identifying, documenting and communicating key business risks in a timely fashion.

The responsibility for monitoring, evaluating and responding to risk is allocated first to F&G Holdings management and employees, second to those occupying specialist functions, such as legal compliance and risk teams, and third to those occupying independent functions, such as internal and external audits and the audit committee of the board of directors.

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Reinsurance

F&G Holdings, through its subsidiary FGL Insurance, both cedes reinsurance to other insurance companies and assumes reinsurance from other insurance companies. F&G Holdings uses reinsurance both to diversify its risks and to manage loss exposures. FGL Insurance seeks reinsurance coverage in order to limit its exposure to mortality losses and enhance capital management. The use of reinsurance permits F&G Holdings to write policies in amounts larger than the risk it is willing to retain, and also to write a larger volume of new business. The portion of risks exceeding the insurer s retention limit is reinsured with other insurers.

In instances where FGL Insurance is the ceding company, it pays a premium to the other company (the reinsurer) in exchange for the reinsurer assuming a portion of FGL Insurance s liabilities under the policies it has issued. Use of reinsurance does not discharge the liability of FGL Insurance as the ceding company because FGL Insurance remains directly liable to its policyholders and is required to pay the full amount of its policy obligations in the event that its reinsurers fail to satisfy their obligations. FGL Insurance collects reinsurance from its reinsurers when FGL Insurance pays claims on policies that are reinsured. In instances where FGL Insurance assumes reinsurance from another insurance company, it accepts, in exchange for a reinsurance premium, a portion of the liabilities of the other insurance company under the policies that the ceding company has issued to its policyholders.

Ceding Company

FGL Insurance is provided reinsurance as the ceding company by accredited or licensed reinsurers and unaccredited o unlicensed reinsurers. See the section entitled Regulation Credit for Reinsurance Regulation below.

Reinsurance Provided by Unaccredited or Unlicensed Reinsurers. As of March 31, 2011, the total reserves ceded by FGL Insurance to unauthorized reinsurers was ceded to OM Ireland and totaled approximately $924.3 million.

Reinsurance Provided by Accredited or Licensed Reinsurers. As of March 31, 2011, the total reserves ceded by FGL Insurance to licensed or accredited affiliate reinsurers was approximately $918.6 million.

Following the consummation of the Fidelity & Guaranty Acquisition, OM Ireland is no longer an affiliate of FGL Insurance and the life insurance policies previously ceded to OM Ireland under certain reinsurance agreements were recaptured by FGL Insurance on April 7, 2011. The CARVM Treaty, under which OM Ireland reinsures certain annuity liabilities from FGL Insurance, currently remains in effect. On January 26, 2011, Harbinger F&G entered into the Commitment Agreement with Wilton Re. Upon the completion of the reinsurance of the Raven Block and the Camden Block by Wilton Re, substantially all of FGL Insurance s in-force life insurance business issued prior to April 1, 2010 will have been reinsured with third party reinsurers.

Reinsurer

FGL Insurance provides reinsurance as the reinsurer to four non-affiliate insurance companies. As of March 31, 2011, FGL Insurance was the reinsurer of $203.4 million total reserves assumed under policies issued by non-affiliate insurers.

Employees

As of March 31, 2011, F&G Holdings had 152 employees. F&G Holdings believes that it has a good relationship with its employees.

Litigation

There are no material legal proceedings, other than ordinary routine litigation incidental to the business of F&G Holdings and its subsidiaries, to which F&G Holdings or any of its subsidiaries is a party or of which any of their properties is subject.

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Regulation

Overview

FGL Insurance and FGL NY Insurance are subject to comprehensive regulation and supervision in their respective domiciles, Maryland and New York, and in each state in which they do business. FGL Insurance does business throughout the United States, except for New York. FGL NY Insurance does business only in New York. FGL Insurance s principal insurance regulatory authority is the Maryland Insurance Administration. State insurance departments throughout the United States also monitor FGL Insurance s insurance operations as a licensed insurer. The New York Insurance Department regulates the operations of FGL NY Insurance, which is domiciled and licensed in New York. The Vermont Department of Banking, Insurance, Securities & Health Administration regulates the operations of the Vermont Captive that was formed in connection with the Reserve Facility. The purpose of these regulations is primarily to protect policyholders and beneficiaries and not general creditors of those insurers or creditors of HGI. Many of the laws and regulations to which FGL Insurance and FGL NY Insurance are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect their operations.

Generally, insurance products underwritten by FGL Insurance and FGL NY Insurance must be approved by the insurance regulators in each state in which they are sold. Those products are also substantially affected by federal and state tax laws. For example, changes in tax law could reduce or eliminate the tax-deferred accumulation of earnings on the deposits paid by the holders of annuities and life insurance products, which could make such products less attractive to potential purchasers. A shift away from life insurance and annuity products could reduce FGL Insurance s and FGL NY Insurance s income from the sale of such products, as well as the assets upon which FGL Insurance and FGL NY Insurance earn investment income. In addition, insurance products may also be subject to ERISA.

State insurance authorities have broad administrative powers over FGL Insurance and FGL NY Insurance with respect to all aspects of the insurance business including:

- licensing to transact business;
- licensing agents;
- prescribing which assets and liabilities are to be considered in determining statutory surplus;
- regulating premium rates for certain insurance products;
- approving policy forms and certain related materials;
- regulating unfair trade and claims practices;
- establishing reserve requirements and solvency standards;
- regulating the availability of reinsurance or other substitute financing solutions, the terms thereof and the ability of an insurer to take credit on its financial statements for insurance ceded to reinsurers or other substitute financing solutions;
- fixing maximum interest rates on life insurance policy loans and minimum accumulation or surrender values; and

regulating the type, amounts and valuations of investments permitted and other matters.

Financial Regulation

State insurance laws and regulations require FGL Insurance and FGL NY Insurance to file reports, including financial statements, with state insurance departments in each state in which they do business, and their operations and accounts are subject to examination by those departments at any time. FGL Insurance and FGL NY Insurance prepare statutory financial statements in accordance with accounting practices and procedures prescribed or permitted by these departments.

NAIC has approved a series of statutory accounting principles that have been adopted, in some cases with certain modifications, by all state insurance departments. These statutory principles are subject to ongoing change and modification. For instance, the NAIC adopted, effective with the annual reporting period ending December 31, 2010, revisions to the Annual Financial Reporting Model Regulation (or the Model Audit Rule) related to auditor independence, corporate governance and internal control over financial reporting. These revisions require that insurance companies, such as FGL Insurance and FGL NY Insurance, file reports with state insurance departments regarding their assessments of internal control over financial reporting. The reports filed by FGL Insurance and FGL NY Insurance with state insurance departments did not identify any material weakness over financial reporting. Moreover, 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. Any particular regulator s interpretation of a legal or accounting issue may change over time to FGL Insurance s and/or FGL NY Insurance s detriment, or changes to the overall legal or market environment, even absent any change of interpretation by a particular regulator, may cause FGL Insurance and FGL NY Insurance to change their views regarding the actions they need to take from a legal risk management perspective, which could necessitate changes to FGL Insurance s and/or FGL NY Insurance s practices that may, in some cases, limit their ability to grow and improve profitability.

State insurance departments conduct periodic examinations of the books and records, financial reporting, policy filings, market conduct and business practices of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. State insurance departments also have the authority to conduct examinations of non-domiciliary insurers that are licensed in their states. The Maryland Insurance Administration completed a routine financial examination of FGL Insurance for the three-year period ended December 31, 2009, and found no material deficiencies or proposed any adjustments to the financial statements as filed. The New York Insurance Department is currently conducting a routine financial examination of FGL NY Insurance for the three year period ended December 31, 2010.

Dividend and Other Distribution Payment Limitations

The Maryland Insurance Code and the New York Insurance Law regulate the amount of dividends that may be paid in any year by FGL Insurance and FGL NY Insurance, respectively. Each year FGL Insurance and FGL NY Insurance may pay a certain amount of dividends or other distributions without being required to obtain the prior consent of the Maryland Insurance Administration or the NY Insurance Department, respectively. However, in order to pay any dividends or distributions (including the payment of any dividends or distributions for which prior written consent is not required), FGL Insurance and FGL NY Insurance must provide advance written notice to the Maryland Insurance Administration or the NY Insurance Department, respectively. Upon receipt of such notice, the Maryland Insurance Administration or the NY Insurance Department may impose restrictions or prohibit the payment of such dividends or other distributions based on their assessment of various factors, including the statutory surplus levels and RBC ratios of FGL Insurance and FGL NY Insurance, respectively.

Without first obtaining the prior written approval of the Maryland Insurance Administration, FGL Insurance may not pay dividends or make other distributions, if such payments, together with all other such payments within the preceding twelve months, exceed the lesser of (i) 10% of FGL Insurance s statutory surplus as regards policyholders as of December 31 of the preceding year; or (ii) the net gain from operations of FGL Insurance (excluding realized capital gains for the 12-month period ending December 31 of the preceding year and pro rata distributions made on any class of FGL Insurance s own securities). In addition, dividends may be paid only out of statutory surplus. FGL Insurance s statutory net gain from operations as of December 31, 2010 was $295.1 million and its statutory surplus as of December 31, 2010 was $902.1 million. On December 20, 2010, FGL Insurance paid a dividend to OM Group in the amount of $59 million with respect to its 2009 results. Based on its 2010 fiscal year results, FGL Insurance may be able to declare an ordinary dividend up to $31.2 million through December 20, 2011 (taking into account the December 20, 2010 dividend payment of $59 million). In addition, between December 21, 2011 and December 31, 2011, FGL Insurance may be able to declare an additional ordinary dividend in the amount of 2011 eligible dividends ($90.2 million) less any dividends paid in the previous twelve months. For example, if the company pays a dividend of $31.2 million on or before December 20, 2011, it may declare an additional dividend of $59 million between December 21, 2011 and December 31, 2011. The foregoing discussion of dividends that may be paid by FGL Insurance is included for illustrative purposes only. Any payment of dividends by FGL Insurance is subject to the regulatory restrictions described above and the approval of such payment by the board of directors of FGL Insurance, which must consider various factors, including general economic and business conditions, tax considerations, FGL Insurance s strategic plans, financial results and condition, FGL Insurance s expansion plans, any contractual, legal or regulatory restrictions on the payment of dividends, and such other factors the board of directors of FGL Insurance considers relevant.

Without first obtaining the prior written approval of the NY Insurance Department, FGL NY Insurance may not pay dividends and make other distributions, if such payments, together with all other such payments within the preceding twelve months, exceed the lesser of (i) 10% percent of its statutory surplus to policyholders as of the immediately preceding calendar year; or (ii) its net gain from operations for the immediately preceding calendar year, not including realized capital gains. In addition, dividends may be paid only out of earned statutory surplus. FGL NY Insurance s statutory net gain from operations as of December 31, 2010 was $3.6 million and its statutory capital and surplus were $41.9 million. FGL NY Insurance did not declare or pay any dividends in its fiscal year 2010.

Surplus and Capital

FGL Insurance and FGL NY Insurance are subject to the supervision of the regulators in which they are licensed to transact business. Regulators have discretionary authority in connection with the continuing licensing of these entities to limit or prohibit sales to policyholders if, in their judgment, the regulators determine that such entities have not maintained the minimum surplus or capital or that the further transaction of business will be hazardous to policyholders.

Risk-Based Capital

In order to enhance the regulation of insurers solvency, the NAIC adopted a model law to implement RBC requirements for life, health and property and casualty insurance companies. All states have adopted the NAIC s model law or a substantially similar law. The RBC is used to evaluate the adequacy of capital and surplus maintained by an insurance company in relation to risks associated with: (i) asset risk, (ii) insurance risk, (iii) interest rate risk, (iv) market risk and (v) business risk. In general, RBC is calculated by applying factors to various asset, premium, claim, expense and reserve items, taking into account the risk characteristics of the insurer. Within a given risk category, these factors are higher for those items with greater underlying risk and lower for items with lower underlying risk. The RBC formula is used as an early warning regulatory tool to identify possible inadequately capitalized insurers for purposes of initiating regulatory action, and not as a means to rank insurers generally. Insurers that have less statutory capital than the RBC calculation requires are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy. As of the most recent annual statutory financial statement filled with insurance regulators on February 28, 2011, the RBC ratios for each of FGL Insurance and FGL NY Insurance each exceeded the minimum RBC requirements.

Insurance Regulatory Information System Tests

The NAIC has developed a set of financial relationships or tests known as the Insurance Regulatory Information System (IRIS) to assist state regulators in monitoring the financial condition of U.S. insurance companies and identifying companies that require special attention or action by insurance regulatory authorities. Insurance companies generally submit data annually to the NAIC, which in turn analyzes the data using prescribed financial data ratios, each with defined usual ranges. Generally, regulators will begin to investigate or monitor an insurance company if its ratios fall outside the usual ranges for four or more of the ratios. If an insurance company has insufficient capital, regulators may act to reduce the amount of insurance

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it can issue. Neither FGL Insurance nor FGL NY Insurance is currently subject to regulatory restrictions based on these ratios.

Insurance Reserves

State insurance laws require insurers to analyze the adequacy of reserves annually. The respective appointed independent actuaries for FGL Insurance and FGL NY Insurance must each submit an opinion that their respective reserves, when considered in light of the respective assets FGL Insurance and FGL NY Insurance hold with respect to those reserves, make adequate provision for the contractual obligations and related expenses of FGL Insurance and FGL NY Insurance. FGL Insurance and FGL NY Insurance have filed all of the required opinions with the insurance departments in the states in which they do business.

Credit for Reinsurance Regulation

States regulate the extent to which insurers are permitted to take credit on their financial statements for the financial obligations that the insurers cede to reinsurers. Where an insurer cedes obligations to a reinsurer which is neither licensed nor accredited by the state insurance department, the ceding insurer is not permitted to take such financial statement credit unless the unlicensed or unaccredited reinsurer secures the liabilities it will owe under the reinsurance contract. Under the laws regulating credit for reinsurance, the permissible means of securing such liabilities are (i) the establishment of a trust account by the reinsurer in a qualified U.S. financial institution, such as a member of the Federal Reserve, with the ceding insurer as the exclusive beneficiary of such trust account with the unconditional right to demand, without notice to the reinsurer, that the trustee pay over to it the assets in the trust account equal to the liabilities owed by the reinsurer; (ii) the posting of an unconditional and irrevocable letter of credit by a qualified U.S. financial institution in favor of the ceding company allowing the ceding company to draw upon the letter of credit up to the amount of the unpaid liabilities of the reinsurer; and (iii) a funds withheld arrangement by which the ceding company withholds transfer to the reinsurer of the reserves which support the liabilities to be owed by the reinsurer, with the ceding insurer retaining title to and exclusive control over such reserves. Both FGL Insurance and FGL NY Insurance are subject to such credit for reinsurance rules in Maryland and New York, respectively, insofar as they enter into any reinsurance contracts with reinsurers which are neither licensed nor accredited in Maryland and New York.

Insurance Holding Company Regulation

As the indirect parent companies of FGL Insurance and FGL NY Insurance, HGI and Harbinger F&G are subject to the insurance holding company laws in Maryland and New York. These laws generally require each insurance company directly or indirectly owned by the holding company to register with the insurance department in the insurance company s state of domicile and to furnish annually financial and other information about the operations of companies within the holding company system. Generally, all transactions affecting the insurers in the holding company system must be fair and reasonable and, if material, require prior notice and approval or non-disapproval by its domiciliary insurance regulator.

Most states, including Maryland and New York, have insurance laws that require regulatory approval of a direct or indirect change of control of an insurer or an insurer s holding company. Such laws prevent any person from acquiring control, directly or indirectly, of HGI, Harbinger F&G, FGL Insurance or FGL NY Insurance unless that person has filed a statement with specified information with the insurance regulators and has obtained their prior approval. Under most states statutes, including those of Maryland and New York, acquiring 10% or more of the voting stock of an insurance company or its parent company is presumptively considered a change of control, although such presumption may be rebutted. Accordingly, any person who acquires 10% or more of the voting securities of HGI, Harbinger F&G, FGL Insurance or FGL NY Insurance without the prior approval of the insurance regulators of Maryland and New

York will be in violation of those states laws and may be subject to injunctive action requiring the disposition or seizure of those securities by the relevant insurance regulator or prohibiting the voting of those securities and to other actions determined by the relevant insurance regulator.

In connection with the Fidelity & Guaranty Acquisition, Harbinger F&G made filings with the Maryland Insurance Administration and the New York Insurance Department for approval to acquire control over FGL NY Insurance. On March 31, 2011, the Maryland Insurance Administration approved Harbinger F&G s application to acquire control over FGL Insurance. On April 1, 2011, the New York Insurance Department approved Harbinger F&G s application to acquire control over FGL NY Insurance.

Insurance Guaranty Association Assessments

Each state has insurance guaranty association laws under which member insurers doing business in the state may be assessed by state insurance guaranty associations for certain obligations of insolvent or rehabilitated insurance companies to policyholders and claimants. Typically, states assess each member insurer in an amount related to the member insurer s proportionate share of the business written by all member insurers in the state. Although no prediction can be made as to the amount and timing of any future assessments under these laws, FGL Insurance and FGL NY Insurance have established reserves that they believe are adequate for assessments relating to insurance companies that are currently subject to insolvency proceedings.

Market Conduct Regulation

State insurance laws and regulations include numerous provisions governing the marketplace activities of insurers, including provisions governing the form and content of disclosure to consumers, illustrations, advertising, sales and complaint process practices. State regulatory authorities generally enforce these provisions through periodic market conduct examinations. In addition, FGL Insurance and FGL NY Insurance must file, and in many jurisdictions and for some lines of business obtain regulatory approval for, rates and forms relating to the insurance written in the jurisdictions in which they operate. FGL Insurance is currently the subject of nine ongoing market conduct examinations in various states, including a review by the New York State Insurance Department related to the possible unauthorized sale of insurance by FGL Insurance within the State of New York. Market conduct examinations can result in monetary fines or remediation and generally require FGL Insurance to devote significant resources to the management of such examinations. FGL Insurance does not believe that any of the current market conduct examinations it is subject to will result in any fines or remediation orders that will be material to its business.

Regulation of Investments

FGL Insurance and FGL NY Insurance are subject to state laws and regulations that require diversification of their investment portfolios and limit the amount of investments in certain asset categories, such as below investment grade fixed income securities, equity real estate, other equity investments, and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring surplus and, in some instances, would require divestiture of such non-qualifying investments. We believe that the investment portfolios of FGL Insurance and FGL NY Insurance as of March 31, 2011 complied in all material respects with such regulations.

Privacy Regulation

F&G Holdings operations are subject to certain federal and state laws and regulations that require financial institutions and other businesses to protect the security and confidentiality of personal information, including health-related and customer information, and to notify customers and other individuals about their policies and practices relating to their collection and disclosure of health-related and customer information and their practices relating to protecting the security and confidentiality of such information. These laws and regulations require notice to affected individuals, law enforcement agencies, regulators and others if there is a breach of the security of certain personal information, including social security numbers, and require holders of certain personal information to protect the security of the data. F&G Holdings operations are also subject to certain federal regulations that require financial institutions and creditors to implement effective programs to detect, prevent and mitigate identity theft. In addition, F&G Holdings ability to make telemarketing calls and to send unsolicited e-mail or fax messages to consumers and customers or uses of certain personal information, including consumer report information, is regulated. Federal and state governments and regulatory bodies may be expected to consider additional or more detailed regulation regarding these subjects and the privacy and security of personal information.

Fixed Indexed Annuities

In recent years, the SEC had questioned whether fixed indexed annuities, such as those sold by FGL Insurance and FGL NY Insurance, should be treated as securities under the federal securities laws rather than as insurance products exempted from such laws. Treatment of these products as securities would require additional registration and licensing of these products and the agents selling them, as well as cause FGL Insurance and FGL NY Insurance to seek additional marketing relationships for these products. On December 17, 2008, the SEC voted to approve Rule 151A under the Securities Act of 1933, as amended (Rule 151A), and apply federal securities oversight to fixed index annuities issued on or after January 12, 2011. On July 12, 2010, however, the District of Columbia Circuit Court of Appeals vacated Rule 151A. In addition, under the Dodd-Frank Act, annuities that meet specific requirements, including requirements relating to certain state suitability rules, are specifically exempted from being treated as securities by the SEC. FGL Insurance and FGL NY Insurance expect that the types of fixed indexed annuities they sell will meet these requirements and therefore are exempt from being treated as securities by the SEC. It is possible that state insurance laws and regulations will be amended to impose further requirements on fixed indexed annuities.

The Dodd-Frank 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 F&G Holdings, its competitors or those entities with which F&G Holdings does business. These changes include 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, the implementation of an exemption of FIAs from SEC regulation if certain suitability practices are implemented as noted above, 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, F&G Holdings, its competitors or the entities with which F&G Holdings does business. Legislative or regulatory requirements imposed by or promulgated in connection with the Dodd-Frank Act may impact F&G Holdings in many ways, including but not limited to: placing F&G Holdings 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 F&G Holdings 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 F&G Holdings financial condition and results of operations.

Until various studies are completed and final regulations are promulgated pursuant to the Dodd-Frank Act, the full impact of the Dodd-Frank Act on investments, investment activities and insurance and annuity products of FGL Insurance and FGL NY Insurance remain unclear.

Front Street

Front Street is a Bermuda company that 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. Front Street intends to enter into long-term reinsurance transactions with insurance companies, existing reinsurers, and pension arrangements, and may also pursue acquisitions in the same sector. To date, Front Street has not entered into any reinsurance contracts, and may not do so until it is capitalized according to its business plan, which was approved by the Bermuda Monetary Authority in March 2010.

Front Street intends to focus on life reinsurance products including:

- reinsurance solutions that improve the financial position of Front Street s clients by increasing their capital base and reducing leverage ratios through the assumption of reserves; and
- providing clients with exit strategies for discontinued lines, closed blocks in run-off, or lines 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.

As contemplated by the terms of the F&G Stock Purchase Agreement, on May 19, 2011, the Special Committee of the Board of the Company, comprised of independent directors under the rules of the NYSE, unanimously recommended to the Board for approval (i) the Reinsurance Agreement to be entered into by Front Street and FGL Insurance, pursuant to which Front Street would reinsure up to $3 billion of insurance obligations under annuity contracts of FGL and (ii) the Investment Management Agreement to be entered into by Front Street and HCP, an affiliate of the Harbinger Parties, pursuant to which HCP would be appointed as the investment manager of up to $1 billion of assets securing Front Street s reinsurance obligations under the Reinsurance Agreement, which assets will be deposited in a reinsurance trust account for the benefit of FGL Insurance pursuant to the Trust Agreement. On May 19, 2011, the Board approved the Front Street Reinsurance Transaction.

The Reinsurance Agreement and the Trust Agreement and the transactions contemplated thereby are subject to, and may not be entered into or consummated without, the approval of the Maryland Insurance Administration. The F&G Stock Purchase Agreement provides for up to a $50 million post-closing reduction in purchase price for the Fidelity & Guaranty Acquisition if, among other things, the Front Street reinsurance transaction is not approved by the Maryland Insurance Administration or is approved subject to certain restrictions or conditions, including if HCP is not allowed to be appointed as the investment manager for $1 billion of assets securing Front Street s reinsurance obligations under the Reinsurance Agreement. See The Fidelity & Guaranty Acquisition The Front Street Reinsurance Transaction.

CERTAIN CORPORATE GOVERNANCE MATTERS

Controlled Company

The board of directors has determined that HGI is a controlled company for the purposes of Section 303A of the NYSE rules, as the Harbinger Parties control more than 50% of HGI s voting power. A controlled company may elect not to comply with certain NYSE rules, including (1) the requirement that a majority of the board of directors consist of independent directors, (2) the requirement that a nominating/corporate governance committee be in place that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities, and (3) the requirement that a compensation committee be in place that is composed entirely of independent directors with a written charter addressing the committee s purpose and responsibilities. We currently avail ourselves of the controlled company exceptions. The board of directors has determined that it is appropriate not to have a nominating/corporate governance because of our relatively limited number of directors, our limited number of senior executives and our status as a controlled company under applicable NYSE rules. While our compensation committee is composed entirely of independent directors and has a charter addressing the committee s purpose and responsibilities, we still avail ourselves of the controlled company exceptions and are not obligated to comply with the NYSE Rules governing compensation committees.

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Director Independence

The board of directors has determined that Messrs. Chan, Hudgins and Leffler are independent directors under the NYSE rules. Under the NYSE rules, no director qualifies as independent unless the board of directors affirmatively determines that the director has no material relationship with HGI. Based upon information requested from and provided by each director concerning their background, employment and affiliations, including commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, the board of directors has determined that each of the independent directors named above has no material relationship with HGI, nor has any such person entered into any material transactions or arrangements with HGI or its subsidiaries, either directly or as a partner, stockholder or officer of an organization that has a relationship with HGI, and is therefore independent under the NYSE rules.

As provided for under the NYSE rules, the board of directors has adopted categorical standards or guidelines to assist the board of directors in making its independence determinations with respect to each director. Under the NYSE rules, immaterial relationships that fall within the guidelines are not required to be disclosed in this prospectus.

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MANAGEMENT

The following table sets forth as of July 11, 2011, the name, age and position of our directors and officers.

Name	Age	Position
Philip A. Falcone	48	Chairman of the Board and Chief Executive Officer
Francis T. McCarron	54	Executive Vice President and Chief Financial Officer
Richard H. Hagerup	58	Interim Chief Accounting Officer
Omar M. Asali	40	Acting President and Director
Lap Wai Chan	44	Director
Keith M. Hladek	35	Director
Thomas Hudgins	71	Director
Robert V. Leffler, Jr.	65	Director
David Maura	38	Director
Robin Roger	54	Director

Philip A. Falcone, age 48, has served as a director, Chairman of the Board and Chief Executive Officer of HGI since July 2009. He is Chief Investment Officer and Chief Executive Officer of Harbinger Capital, an affiliate of HGI, is Chief Investment Officer of the Harbinger Parties and other Harbinger Capital affiliates and is Chairman of the Board, President and Chief Executive Officer of Zap.Com Corporation (Zap.Com). Mr. Falcone co-founded the Master Fund and has been its Chief Investment Officer since 2001. Mr. Falcone has over two decades of experience in leveraged finance, distressed debt and special situations. Prior to joining the predecessor of Harbinger Capital, Mr. Falcone served as Head of High Yield Trading for Barclays Capital. None of the companies Mr. Falcone worked with before co-founding the Master Fund is an affiliate of HGI.

Francis T. McCarron, age 54, has been the Executive Vice President and Chief Financial Officer of HGI since December 2009. Mr. McCarron also serves as the Executive Vice President and Chief Financial Officer of Zap.Com, a position he has held since December 2009. From 2001 to 2007, Mr. McCarron was the Chief Financial Officer of Triarc Companies, Inc. (Triarc), which was renamed Wendy s/Arby s Group, Inc. in 2008. During 2008, Mr. McCarron was a consultant for Triarc. During the time of Mr. McCarron s employment, Triarc was a holding company that, through its principal subsidiary, Arby s Restaurant Group, Inc., was the franchisor of the Arby s restaurant system. Triarc (now Wendy/Arby s Group, Inc.) is not an affiliate of HGI.

Richard H. Hagerup, age 58, has been the Interim Chief Accounting Officer of HGI since December 2010. Mr. Hagerup also serves as Interim Chief Accounting Officer of Zap.Com, a position he has held since December 2010. Prior to being appointed as Interim Chief Accounting Officer of HGI, Mr. Hagerup served as HGI s contract controller, a position he held from January 2010. From April 1980 to April 2008, Mr. Hagerup held various accounting and financial reporting positions with Triarc and its affiliates, last serving as Controller of Triarc. During the time of Mr. Hagerup s employment, Triarc was a holding company that, through its principal subsidiary Arby s Restaurant Group, Inc., was the franchisor of the Arby s restaurant system. Triarc (now Wendy/Arby s Group, Inc.) is not an affiliate of HGI.

Omar M. Asali, 40, has served as a director of HGI since May 12, 2011 and the Acting President of HGI effective June 30, 2011. Mr. Asali is a Managing Director and Head of Global Strategy for Harbinger Capital Partners. He is responsible for global portfolio strategy, risk management and portfolio analytics. Prior to joining Harbinger Capital

Partners in 2009, Mr. Asali was the co-head of Goldman Sachs Hedge Fund Strategies (HFS) where he helped to manage capital allocated to external managers. Mr. Asali also served as co-chair of the Investment Committee at HFS. Before joining HFS in 2003, Mr. Asali worked in Goldman Sachs Investment Banking Division, providing M&A and strategic advisory services to clients in the High Technology Group. Prior to joining Goldman Sachs, Mr. Asali worked at Capital Guidance, a boutique private equity firm. Mr. Asali began his career as a C.P.A., working for a public accounting firm. Mr. Asali is also a director of Spectrum Brands Holdings. Mr. Asali received a B.S. in Accounting from Virginia Tech and an M.B.A. from Columbia Business School.

Lap Wai Chan, age 44, has served as a director of HGI since October 2009. From September 2009 to September 2010 he was a consultant to MatlinPatterson Global Advisors (MatlinPatterson), a private equity firm focused on distressed control investments across a range of industries. From July 2002 to September 2009, Mr. Chan was a Managing Partner at MatlinPatterson. Prior to that, Mr. Chan was a Managing Director at Credit Suisse First Boston H.K. Ltd. (Credit Suisse). From March 2003 to December 2007, Mr. Chan served on the board of directors of Polymer Group, Inc. MatlinPatterson, Credit Suisse and Polymer Group, Inc. are not affiliates of HGI.

Keith M. Hladek, age 35, has served as a director of HGI since October 2009. Mr. Hladek is also a director of Zap.Com. He is Chief Financial Officer and Co-Chief Operating Officer of Harbinger Capital, an affiliate of HGI. Mr. Hladek is responsible for all accounting and operations of Harbinger Capital (including the Harbinger Parties and their management companies), including portfolio accounting, valuation, settlement, custody, and administration of investments. Prior to joining Harbinger Capital in 2009, Mr. Hladek was Controller at Silver Point Capital, L.P., a distressed debt and credit-focused private investment firm, where he was responsible for accounting, operations and valuation for various funds and related financing vehicles. None of the companies Mr. Hladek worked with before joining Harbinger Capital is an affiliate of HGI. Mr. Hladek is a Certified Public Accountant in New York.

Thomas Hudgins, age 71, has served as a director of HGI since October 2009. He is a retired partner of Ernst & Young LLP (E&Y). From 1993 to 1998, he served as E&Y s Managing Partner of its New York office with over 1,200 audit and tax professionals and staff personnel. During his tenure at E&Y, Mr. Hudgins was the coordinating partner for a number of multinational companies, including American Express Company, American Standard Inc., Textron Inc., MacAndrews & Forbes Holdings Inc., and Morgan Stanley, as well as various mid-market and leveraged buy-out companies. As coordinating partner, he had the lead responsibility for the world-wide delivery of audit, tax and management consulting services to these clients. Mr. Hudgins also served on E&Y s international executive committee for its global financial services practice. Mr. Hudgins previously served on the board of directors and as a member of various committees of Foamex International Inc., Aurora Foods, Inc. and RHI Entertainment, Inc. E&Y, RHI Entertainment Inc., Foamex International Inc. and Aurora Foods, Inc. are not affiliates of HGI.

Robert V. Leffler, Jr., age 65, has served as a director of HGI since May 1995. Mr. Leffler has been a member of the audit committee from 1995 to the present and has been compensation committee chairman from 1998 to the present. Mr. Leffler owns The Leffler Agency, Inc., a full service advertising agency founded in 1984. The firm specializes in the areas of sports/entertainment and media. Headquartered in Baltimore, the agency also has offices in Tampa and Providence. It operates in 20 US markets. Leffler Agency also has a subsidiary media buying service, Media Moguls, LLC, which specializes in mass retail media buying. The Leffler Agency and Media Moguls, LLC are not affiliates of HGI.

David Maura, 38, has served as a director of HGI since May 12, 2011, as the Chairman of Spectrum Brands Holdings since June 2011 and as the interim Chairman of the board of directors of Spectrum Brands Holdings, and as one of its directors, since June 2010. Mr. Maura is also a Vice President and Director of Investments of Harbinger Capital. He is responsible for investments in consumer products, agriculture and retail sectors. Prior to joining Harbinger Capital in 2006, Mr. Maura was a Managing Director and Senior Research Analyst at First Albany Capital, where he focused on distressed debt and special situations, primarily in the consumer products and retail sectors. Prior to First Albany, Mr. Maura was a Director and Senior High Yield Research Analyst in Global High Yield Research at Merrill Lynch & Co. Mr. Maura was a Vice President and Senior Analyst in the High Yield Group at Wachovia Securities, where he covered various consumer product, service and retail companies. Mr. Maura began his career at ZPR Investment Management as a Financial Analyst. During the past five years, Mr. Maura has served on the board of directors of Russell Hobbs (formerly Salton, Inc.) and Applica Incorporated. Mr. Maura received a B.S. in Business Administration from Stetson University and is a CFA charterholder.

Robin Roger, 54, has served as a director of HGI since May 12, 2011, and as a director for Spectrum Brands Inc. since June 2010. Ms. Roger is a Managing Director, General Counsel Co-Chief Operating Officer and Chief Compliance Officer of Harbinger Capital. Prior to joining Harbinger Capital in 2009, Ms. Roger

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was General Counsel at Duff Capital Advisors, a multi-strategy investment advisor. She previously served as General Counsel to Jane Street Capital, a proprietary trading firm, and Moore Capital Management. Ms. Roger worked at Morgan Stanley from 1989 to 2006. While there, she headed the equity sales and trading legal practice group and served as General Counsel of the Institutional Securities Division (which encompassed the investment banking as well as sales and trading activities of the firm), and performed other roles at the corporate level. She received a B.A. from Yale College and a J.D. from Harvard Law School.

EXECUTIVE COMPENSATION

After December 31, 2010, we changed our fiscal year end for financial reporting purposes to September 30. The description of our executive compensation is based on the years ending December 31, 2010, 2009 and 2008.

Summary Compensation Table

The following table discloses compensation for the fiscal years ended December 31, 2010, December 31, 2009 and December 31, 2008 received by (i) Philip A. Falcone, our Chairman of the Board and Chief Executive Officer, (ii) Francis T. McCarron, our Executive Vice President and Chief Financial Officer, who was appointed in December 2009 and (iii) Leonard DiSalvo, our Vice President Finance until May 31, 2010. Mr. Falcone also served as our President during 2010. These individuals are also referred to in this prospectus as our named executive officers.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Non-Qualified Deferred Compensation Earnings ($)(1)	All Other Compensation ($)	Total ($)
Philip A. Falcone, Chairman of the Board and Chief Executive Officer	2010	(2)							
	2009	(2)							
Francis T. McCarron, Executive Vice President and Chief Financial Officer	2010	500,000	1,250,000(3)					9,800(4)	1,759,800
	2009	15,070			329,361(5)				344,431
Leonard DiSalvo, Former Vice President Finance	2010	111,557(6)	(7)					192,939(8)	304,496
	2009	245,000	63,000				30,495	9,800(4)	348,295
	2008	230,936	65,769				3,470	9,200(4)	309,375

(1) The HGI Pension Plan (the Pension Plan) was frozen in 2005; accordingly, the amount of future pension benefits an employee will receive is fixed. Disclosed changes in pension value are caused by actuarial related changes in the present value of the named executive officer s accumulated benefit. Actuarial assumptions such as age and the selected discount rate will cause an annual change in the actuarial pension value of an employee s benefit but does not result in any change in the actual amount of future benefits an employee will receive.

(2)

Mr. Falcone is an employee of an affiliate of the Harbinger Parties and he does not receive any compensation for his services as our Chairman of the Board and Chief Executive Officer.

(3) Pursuant to Mr. McCarron s employment agreement, he was guaranteed a minimum bonus amount of $500,000 for 2010. In 2011, the Board set Mr. McCarron s cash bonus amount for 2010 at $1,250,000.

(4) Amounts represent HGI s matching contribution under HGI s 401(k) plan.

(5) In 2009, stock options were granted with a grant date fair value of $2.63 with the following assumptions used in the determination of fair value using the Black-Scholes option pricing model: expected option term of six years, volatility of 32.6%, risk-free interest rate of 3.1% and no assumed dividend yield. No stock options were granted in 2008 or 2010.

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(6) Excludes any compensation paid to Mr. DiSalvo for consulting services he performed after his employment terminated on May 31, 2010.

(7) For 2010, Mr. DiSalvo earned a bonus of $34,453, which was computed at a rate of 125% of his 2009 bonus. Pursuant to his severance agreement, in lieu of receiving this bonus, Mr. DiSalvo received a lump-sum severance payment of $184,453 (included as All Other Compensation in this table).

(8) Amount consists of $184,453 in severance payments and $8,486 for HGI s matching contribution under HGI s 401(k) plan.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards					Stock Awards			
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise Price ($)(1)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**
Philip A. Falcone									
Francis T. McCarron	41,667(2)	83,333(3)		7.01	12/23/2019				
Leonard DiSalvo	100,000(4)			2.775	11/30/2011(5)				
	160,000(4)			6.813	12/8/2013(5)				

(1) The exercise price of all equity awards is equal to the fair market value (closing trading price of our common stock) on the date of grant.

(2) On December 24, 2010, options for 41,667 shares of common stock became exercisable.

(3) On December 24, 2011, if Mr. McCarron continues to be employed as our Executive Vice President and Chief Financial Officer, options for 41,667 shares of common stock will become exercisable. On December 24, 2012, if Mr. McCarron continues to be employed as our Executive Vice President and Chief Financial Officer, options for 41,666 shares of common stock will become exercisable.

(4) Amounts are fully vested as of the date of this prospectus.

(5) Pursuant to Mr. DiSalvo s retention and consulting agreement, his termination of employment on May 31, 2010 was, solely with respect to his options, deemed to be effective August 31, 2010.

Determination of Compensation

During 2010, we did not have a compensation committee because of the limited number of our senior executives and our status as a controlled company under applicable NYSE rules. Instead, the entire Board of Directors was responsible for determining compensation for our directors and executive officers. The Board of Directors may delegate the authority to recommend the amount or form of executive or director compensation to individual directors or executive officers, but the authority to approve the compensation rests with the entire Board of Directors. During the year ended December 31, 2010, the Board of Directors did not retain compensation consultants to determine or recommend the amount or form of executive or director compensation, but it may do so in the future if it deems it appropriate.

Elements of Post-Termination Compensation and Benefits

Pension Plan. Benefits under our Pension Plan are based on employees years of service and compensation level. All of the costs of this plan are borne by us. The plan s participants are 100% vested in the accrued benefit after five years of service.

In 2005, our Board of Directors authorized a freeze of the Pension Plan in accordance with ERISA rules and regulations so that new employees, after January 15, 2006, are not eligible to participate in the Pension Plan and further benefits no longer accrue for existing participants. Of our named executive officers, only Leonard DiSalvo was eligible to participate in this plan and he no longer accrues additional benefits.

401(k) Plan. We maintain a 401(k) plan in which eligible participants may defer a fixed amount or a percentage of their eligible compensation, subject to limitations. We make discretionary matching contributions of up to 4% of eligible compensation. Mr. Falcone does not participate in our 401(k) plan. Mr. McCarron was not eligible to participate in our 401(k) plan in 2009. Our match for Mr. McCarron was $9,800 in 2010 and our match for Mr. DiSalvo was $9,800 in 2009 and $8,486 in 2010.

Senior Executive Health Plan. During the second quarter of 2006, the Board of Directors established the HGI Corporation Senior Executive Retiree Health Care Benefit Plan to provide health and medical benefits for certain of our former senior executive officers. These health insurance benefits are consistent with HGI s existing benefits available to employees. Participation of individuals in this plan is determined by the Board of Directors. There are no current participants in this plan, although the Board of Directors may permit our current executive officers to participate following their retirement.

Deferred Compensation Arrangements. We do not currently have any deferred compensation arrangements or plans.

Employment Agreements with Named Executive Officers; Payments upon Termination and Change in Control

Philip A. Falcone, our Chief Executive Officer and Francis T. McCarron, our Executive Vice President and Chief Financial Officer, are employees at will. Mr. Falcone was not or is not a party to an employment agreement with HGI. We have an employment agreement with Mr. McCarron. We have a consulting agreement with Leonard DiSalvo, our former Vice President Finance. We also have indemnification agreements with Messrs. Falcone, McCarron and DiSalvo, pursuant to which we agreed to indemnify them to the fullest extent of the law.

Other than the termination payments payable to Messrs. McCarron and DiSalvo as described below, we are not obligated to make any payments or provide any benefits to our named executive officers upon the termination of employment, a change of control of HGI, or a change in the named executive officer s responsibilities following a change of control.

Employment Agreement with Francis T. McCarron

Pursuant to our employment agreement with Mr. McCarron, dated as of December 24, 2009, Mr. McCarron s annual base salary is $500,000 and, beginning January 1, 2010, he is eligible to earn an annual cash bonus targeted at 300% of his base salary upon the attainment of certain reasonable performance objectives to be set by, and in the sole discretion of, our Board or the Compensation Committee of the Board, in consultation with Mr. McCarron. For 2010, Mr. McCarron was guaranteed a minimum annual bonus of $500,000. In 2011, the Board set Mr. McCarron s 2010 cash bonus amount at $1,250,000.

Pursuant to his employment agreement, Mr. McCarron was granted an initial non-qualified option to purchase 125,000 shares of our common stock (the Initial Option) pursuant to our Amended and Restated 1996 Long-Term Incentive Plan. The Initial Option will vest in three substantially equal annual installments, subject to Mr. McCarron s continued employment on each annual vesting date, and has an exercise price equal to the fair market value of a share of common stock on the date of grant. For years beginning on or after January 1, 2011, Mr. McCarron will be eligible to receive an additional annual option or similar equity grant having a fair value targeted at between 25% and 50% of Mr. McCarron s total annual compensation for the immediately preceding year, subject to the sole discretion of our

Board of Directors (including the discretion to grant awards higher than the targeted amount).

If Mr. McCarron s employment is terminated for any reason, he is entitled to his salary through his final date of active employment plus any accrued but unused vacation pay. He is also entitled to any benefits mandated under the Consolidated Omnibus Budget Reconciliation Act (COBRA) or required under the terms of HGI s plans described above.

If Mr. McCarron s employment is terminated by us without cause, or by him for Good Reason, as defined below, at any time after December 31, 2010, Mr. McCarron will be entitled to the continuation of his base salary for three months following such termination and full vesting of his Initial Option.

Good Reason means the occurrence of any of the following events without either Mr. McCarron s express prior written consent or full cure by us within 30 days: (i) any material diminution in Mr. McCarron s title, responsibilities or authorities, (ii) the assignment to him of duties that are materially inconsistent with his duties as the principal financial officer of HGI; (iii) any change in the reporting structure so that he reports to any person or entity other than Chief Executive Officer and/or the Board; (iv) the relocation of Mr. McCarron s principal office, or principal place of employment, to a location that is outside the borough of Manhattan, New York; (v) a breach by HGI of any material terms of Mr. McCarron s employment agreement; or (vi) any failure of HGI to obtain the assumption (in writing or by operation of law) of our obligations under his employment agreement by any successor to all or substantially all of our business or assets upon consummation of any merger, consolidation, sale, liquidation, dissolution or similar transaction.

Retention and Consulting Agreement with Leonard DiSalvo

On January 22, 2010, we entered into a Retention and Consulting Agreement with Mr. DiSalvo pursuant to which Mr. DiSalvo continued to be employed by HGI through May 31, 2010, and was then entitled to the following retention payments: (i) a lump sum payment equal to $150,000; (ii) a pro-rated bonus for 2010 equal to $34,453; and (iii) three months of outplacement services.

Since June 1, 2010, Mr. DiSalvo has been providing certain consulting services to HGI. For each full month of service, Mr. DiSalvo is compensated $21,233.33, a rate equal to 1/12th of his annual base salary at the rate in effect on the date his employment terminated. In addition, Mr. DiSalvo had the right to (but did not) elect health care continuation coverage under COBRA and we would have paid his COBRA premiums during the consulting period at the same rate we pay health insurance premiums for our active employees. The consulting services continue for 12 months, except that Mr. DiSalvo may terminate the consulting period at any time upon 30 days prior written notice to us and we may terminate the consulting period at any time for cause. Mr. DiSalvo s entitlement to the payments was also subject to his execution of a release in a form reasonably acceptable to us, which he executed in May 2010.

Mr. DiSalvo s stock options continue to be subject to the terms of our 1996 Long-Term Incentive Plan, except that for purposes of these options, Mr. DiSalvo s employment was deemed to terminate on August 31, 2010.

Director Compensation

The following table shows for the fiscal year 2010 certain information with respect to the compensation of the current directors of HGI, excluding Philip A. Falcone, whose compensation is disclosed in the Summary Compensation Table above.

Name	Fees Earned or Paid in Cash($)(1)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)

Lap W. Chan	239,321(2)	239,321
Lawrence M. Clark, Jr.		
Keith M. Hladek		
Thomas Hudgins	156,429(3)	156,429
Peter Jenson		
Robert V. Leffler	143,429(3)	143,429

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(1) During 2010, directors who were not employees of HGI or of the Harbinger Parties (or an affiliate) were paid an annual retainer of $35,000 (on a quarterly basis), plus $1,000 per meeting for each standing committee of the Board of Directors on which a director served or $2,000 per meeting for each standing committee of the Board of Directors of which a director was Chairman. Those directors who also are employees of HGI or of the Harbinger Parties (or an affiliate) do not receive any compensation for their services as directors.

(2) In 2010, the Board of Directors formed a special committee to consider certain proposed acquisitions (the Special Committee). Mr. Chan acted as Chairman of the Special Committee and for this service, was paid a fee of $25,000 per calendar month during which the Special Committee was in existence, and a fee of $1,500 per meeting.

(3) For service on the Special Committee, Messrs. Hudgins and Leffler were paid a fee of $10,000 per calendar month during which the Special Committee was in existence, and a fee of $1,500 per meeting.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Our Audit Committee is responsible for reviewing and addressing conflicts of interests of directors and executive officers, as well as reviewing and discussing with management and the independent registered public accounting firm, and approving as the case may be, any transactions or courses of dealing with related parties that are required to be disclosed pursuant to Item 404 of Regulation S-K, which is the SEC s disclosure rules for certain related party transactions.

Management Agreement

Effective March 1, 2010, we entered into a Management and Advisory Services Agreement (the Management Agreement) with Harbinger Capital, pursuant to which Harbinger Capital has agreed to provide us with advisory and consulting services, particularly with regard to identifying and evaluating investment opportunities. Harbinger Capital is an affiliate of the Harbinger Parties, which collectively hold approximately 93.3% of our outstanding shares of common stock (prior to giving effect to the conversion of the shares of our Preferred Stock). We have agreed to reimburse Harbinger Capital for (i) its out-of-pocket expenses and its fully-loaded cost (based on budgeted compensation and overhead) of services provided by its legal and accounting personnel (but excluding such services as are incidental and ordinary course activities) and (ii) upon our completion of any transaction, Harbinger Capital s out-of-pocket expenses and its fully-loaded cost (based on budgeted compensation and overhead) of services provided by its legal and accounting personnel (but not its investment banking personnel) relating to such transaction, to the extent not previously reimbursed by us. Requests by Harbinger Capital for reimbursement are subject to review by our Audit Committee, after review by our management. The Management Agreement has a three-year term, with automatic one-year extensions unless terminated by either party with 90 days notice. For the nine months ended July 3, 2011, we did not accrue any costs related to the Management Agreement.

Spectrum Brands Acquisition; Related Transactions

For a description of the Spectrum Brands Acquisition, the Spectrum Brands Holdings Registration Rights Agreement, the Spectrum Brands Holdings Stockholder Agreement and related transactions and the interests our directors and significant stockholders have in this transaction, see The Spectrum Brands Acquisition elsewhere in this prospectus.

Registration Rights Agreement

In connection with the Spectrum Brands Acquisition, HGI and the Harbinger Parties entered into a registration rights agreement, dated as of September 10, 2010, (the Registration Rights Agreement) pursuant to which, after the consummation of the Spectrum Brands Acquisition, the Harbinger Parties will, among other things and subject to the terms and conditions set forth therein, have certain demand and so-called piggy back registration rights with respect to (i) any and all shares of HGI s common stock owned after the date of the Registration Rights Agreement by the Harbinger Parties and their permitted transferees (irrespective of when acquired) and any shares of HGI s common stock issuable or issued upon exercise, conversion or exchange of HGI s other securities owned by the Harbinger Parties, and (ii) any of HGI securities issued in respect of the shares of HGI s common stock issued or issuable to any of the Harbinger Parties with respect to the securities described in clause (i).

Under the Registration Rights Agreement, after the consummation of the Spectrum Brands Acquisition any of the Harbinger Parties may demand that HGI register all or a portion of such Harbinger Party s shares of HGI s common stock for sale under the Securities Act, so long as the anticipated aggregate offering price of the securities to be offered is (i) at least $30 million if registration is to be effected pursuant to a registration statement on Form S-1 or any similar long-form registration or (ii) at least $5 million if registration is to be effected pursuant to a registration statement on Form S-3 or a similar short-form registration. Under the agreement, HGI is not obligated to effect more than three such long-form registrations in the aggregate for all of the Harbinger Parties.

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The Registration Rights Agreement also provides that if HGI decides to register any shares of its common stock for its own account or the account of a stockholder other than the Harbinger Parties (subject to certain exceptions set forth in the agreement), the Harbinger Parties may require HGI to include all or a portion of their shares of HGI s common stock in the registration and, to the extent the registration is in connection with an underwritten public offering, to have such shares included in the offering.

PRINCIPAL STOCKHOLDERS

The table below shows the number of shares of our common stock beneficially owned by:

- each named executive officer,
- each director,
- each person known to us to beneficially own more than 5% of our outstanding common stock (the 5% stockholders), and
- all directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. Determinations as to the identity of 5% stockholders and the number of shares of our common stock beneficially owned, including shares which may be acquired by them within 60 days, is based upon filings with the SEC as indicated in the footnotes to the table below. Except as otherwise indicated, we believe, based on the information furnished or otherwise available to us, that each person or entity named in the table has sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them, subject to applicable community property laws.

The percentage of beneficial ownership set forth below is based upon 139,284,286 shares of our common stock issued and outstanding, and 43,076,923 shares issuable upon the conversion of the outstanding Preferred Stock, as of the close of business on July 27, 2011. The Preferred Stock is entitled to vote with the Common Stock on an as-converted basis on all matters submitted to a vote of the Common Stock.

In computing the number of shares of our common stock beneficially owned by a person and the percentage ownership of that person, shares of our common stock that are subject to options held by that person that are currently exercisable or exercisable within 60 days of July 27, 2011, are deemed outstanding. These shares of our common stock are not, however, deemed outstanding for the purpose of computing the percentage ownership of any other person. Unless otherwise noted below, the address of each beneficial owner listed in the table is c/o Harbinger Group Inc., 450 Park Avenue, 27th Floor, New York, New York 10022.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Beneficial Ownership Percent(1)
5% stockholders		
Harbinger Capital Partners Master Fund I, Ltd.(2)	95,932,068	52.6%
Harbinger Capital Partners Special Situations Fund, L.P.(3)	21,493,161	11.8%
Global Opportunities Breakaway Ltd.(4)	12,434,660	6.8%
CF Turul LLC(5)	31,538,469	17.3%
Our Directors and Executive Officers		
Omar Asali(6)		
Lap W. Chan		
Leonard DiSalvo(7)	203,554	*
Philip A. Falcone(8)	129,859,889	71.2%
Richard H. Hagerup		
Keith M. Hladek(6)		
Thomas Hudgins		
David M. Maura(6)		
Robert V. Leffler, Jr.(9)	8,000	*
Francis T. McCarron(10)	41,667	*
Robin Roger(6)		
All directors and executive officers as a group (12 persons)	130,169,556	71.4%

* Indicates less than 1% of our outstanding Common Stock.

(1) Reflects voting power as a percentage of the total voting power of all our outstanding shares of common stock and Preferred Stock.

(2) Based solely on a Schedule 13D, Amendment No. 8, filed with the SEC on May 19, 2011, the Master Fund is the beneficial owner of 95,932,068 shares of our common stock, which may also be deemed to be beneficially owned by Harbinger Capital, the investment manager of Master Fund; Harbinger Holdings, LLC (Harbinger Holdings), the managing member of Harbinger Capital, and Mr. Falcone, the managing member of Harbinger Holdings and the portfolio manager of the Master Fund. The address of the Master Fund is c/o International Fund Services (Ireland) Limited, 78 Sir John Rogerson s Quay, Dublin 2, Ireland. A portion of the shares of our common stock held by the Master Fund are pledged, together with securities of other issuers, to secure certain portfolio financing for Master Fund.

(3) Based solely on a Schedule 13D, Amendment No. 8, filed with the SEC on May 19, 2011, Harbinger Capital Partners Special Situations Fund, L.P. (the Special Situations Fund) is the beneficial owner of 21,493,161 shares of our common stock, which may be deemed to be beneficially owned by Harbinger Capital Partners Special Situations GP, LLC (HCPSS), the general partner of the Special Situations Fund, Harbinger Holdings, the managing member of HCPSS, and Mr. Falcone, the managing member of Harbinger Holdings and the portfolio manager of the Special Situations Fund. The address of the Special Situations Fund is 450 Park Avenue, 30th

floor, New York, New York, 10022.

(4) Based solely on a Schedule 13D, Amendment No. 8, filed with the SEC on May 19, 2011, Global Opportunities Breakaway Ltd. (the Global Fund) is the beneficial holder of 12,434,660 shares of our common stock, which may be deemed to be beneficially owned by Harbinger Capital Partners II LP (HCP II), the investment manager of the Global Fund; Harbinger Capital Partners II GP LLC (HCP II GP), the general partner of HCP II, and Mr. Falcone, the managing member of HCP II GP and the portfolio manager of the Global Fund. The address of the Global Fund is c/o Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, Cayman Islands KY1-1104.

(5) Based solely on a Schedule 13D filed with the SEC on May 23, 2011, CF Turul LLC (CF Turul) may be deemed to be the beneficial holder of 31,538,462 shares of our common stock upon conversion of its

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Preferred Stock. The Preferred Stock is entitled to vote with our shares of common stock on an as-converted basis on all matters submitted to a vote of common stock.

As described in the Schedule 13D filed with SEC on May 23, 2011, each of Fortress Credit Opportunities Advisors LLC, FIG LLC, Hybrid GP Holdings LLC, Fortress Operating Entity I LP, FIG Corp., Fortress Investment Group LLC, Mr. Peter L. Briger, Jr., and Mr. Constantine M. Dakolias may also be deemed to be the beneficial holder of our shares of common stock beneficially owned by CF Turul, assuming the effectiveness of a joint investment committee agreement.

(6) The address of each beneficial owner is c/o Harbinger Capital Partners LLC, 450 Park Avenue, 30th floor, New York, New York 10022.

(7) Includes 203,554 shares of our common stock issuable under options exercisable within 60 days of July 27, 2011.

(8) Based solely on a Schedule 13D, Amendment No. 8, filed with the SEC on May 19, 2011, Mr. Falcone, the managing member of Harbinger Holdings and HCP II GP and portfolio manager of each of the Master Fund, the Special Situations Fund and the Global Fund, may be deemed to indirectly beneficially own 129,859,889 shares of our Common Stock, constituting approximately 71.2% of our outstanding common stock on a fully diluted basis, and has shared voting and dispositive power over all such shares. A portion of the shares of our common stock held by the Master Fund are pledged, together with securities of other issuers, to secure certain portfolio financing for Master Fund. Mr. Falcone disclaims beneficial ownership of the shares reported in the Schedule 13D, except with respect to his pecuniary interest therein. Mr. Falcone s address is c/o Harbinger Holdings, LLC, 450 Park Avenue, 30th floor, New York, New York, 10022.

(9) Includes 8,000 shares of our common stock issuable under options exercisable within 60 days of July 27, 2011.

(10) Includes 41,667 shares of our common stock issuable under options exercisable within 60 days of July 27, 2011.

THE EXCHANGE OFFER

Terms of the Exchange Offer

We are offering to exchange our exchange notes for a like aggregate principal amount of our initial notes.

The exchange notes that we propose to issue in the exchange offer will be substantially identical to our initial notes except that, unlike our initial notes, the exchange notes will have no transfer restrictions or registration rights. You should read the description of the exchange notes in the section in this prospectus entitled Description of Notes.

We reserve the right in our sole discretion to purchase or make offers for any initial notes that remain outstanding following the expiration or termination of the exchange offer and, to the extent permitted by applicable law, to purchase initial notes in the open market or privately negotiated transactions, one or more additional tender or exchange offers or otherwise. The terms and prices of these purchases or offers could differ significantly from the terms of the exchange offer.

Expiration Date; Extensions; Amendments; Termination

The exchange offer will expire at 5:00 p.m., New York City time, on , 2011, unless we extend it in our reasonable discretion. The expiration date of the exchange offer will be at least 20 business days after the commencement of the exchange offer in accordance with Rule 14e-1(a) under the Securities Exchange Act of 1934, as amended (the Exchange Act).

We expressly reserve the right to delay acceptance of any initial notes, extend or terminate the exchange offer and not accept any initial notes that we have not previously accepted if any of the conditions described below under Conditions to the Exchange Offer have not been satisfied or waived by us. We will notify the exchange agent of any delay, extension or termination of the exchange offer by oral notice, promptly confirmed in writing, or by written notice. We will also notify the holders of the initial notes by a press release or other public announcement communicated before 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date unless applicable laws require us to do otherwise.

We also expressly reserve the right to amend the terms of the exchange offer in any manner. If we make any material change, we will promptly disclose this change in a manner reasonably calculated to inform the holders of our initial notes of the change including providing public announcement or giving oral or written notice to these holders. A material change in the terms of the exchange offer could include a change in the timing of the exchange offer, a change in the exchange agent and other similar changes in the terms of the exchange offer. If we make any material change to the exchange offer, we will disclose this change by means of a post-effective amendment to the registration statement which includes this prospectus and will distribute an amended or supplemented prospectus to each registered holder of initial notes. In addition, we will extend the exchange offer for an additional five to ten business days as required by the Exchange Act, depending on the significance of the amendment, if the exchange offer would otherwise expire during that period. We will promptly notify the exchange agent by oral notice, promptly confirmed in writing, or written notice of any delay in acceptance, extension, termination or amendment of the exchange offer.

Procedures for Tendering Initial Notes

Proper Execution and Delivery of Letters of Transmittal

To tender your initial notes in the exchange offer, you must use *one of the three* alternative procedures described below:

(1) *Regular delivery procedure*: Complete, sign and date the letter of transmittal, or a facsimile of the letter of transmittal. Have the signatures on the letter of transmittal guaranteed if required by the letter of transmittal. Mail or otherwise deliver the letter of transmittal or the facsimile together with the certificates representing the initial notes being tendered and any other required documents to the exchange agent on or before 5:00 p.m., New York City time, on the expiration date.

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(2) *Book-entry delivery procedure*: Send a timely confirmation of a book-entry transfer of your initial notes, if this procedure is available, into the exchange agent s account at DTC in accordance with the procedures for book-entry transfer described under Book-Entry Delivery Procedure below, on or before 5:00 p.m., New York City time, on the expiration date.

(3) *Guaranteed delivery procedure*: If time will not permit you to complete your tender by using the procedures described in (1) or (2) above before the expiration date and this procedure is available, comply with the guaranteed delivery procedures described under Guaranteed Delivery Procedure below.

The method of delivery of the initial notes, the letter of transmittal and all other required documents is at your election and risk. Instead of delivery by mail, we recommend that you use an overnight or hand-delivery service. If you choose the mail, we recommend that you use registered mail, properly insured, with return receipt requested. **In all cases, you should allow sufficient time to assure timely delivery.** You should not send any letters of transmittal or initial notes to us. You must deliver all documents to the exchange agent at its address provided below. You may also request your broker, dealer, commercial bank, trust company or nominee to tender your initial notes on your behalf.

Only a holder of initial notes may tender initial notes in the exchange offer. A holder is any person in whose name initial notes are registered on our books or any other person who has obtained a properly completed bond power from the registered holder.

If you are the beneficial owner of initial notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your notes, you must contact that registered holder promptly and instruct that registered holder to tender your notes on your behalf. If you wish to tender your initial notes on your own behalf, you must, before completing and executing the letter of transmittal and delivering your initial notes, either make appropriate arrangements to register the ownership of these notes in your name or obtain a properly completed bond power from the registered holder. The transfer of registered ownership may take considerable time.

You must have any signatures on a letter of transmittal or a notice of withdrawal guaranteed by:

(1) a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc.,

(2) a commercial bank or trust company having an office or correspondent in the United States, or

(3) an eligible guarantor institution within the meaning of Rule 17Ad-15 under the Exchange Act, *unless* the initial notes are tendered:

(1) by a registered holder or by a participant in DTC whose name appears on a security position listing as the owner, who has not completed the box entitled Special Issuance Instructions or Special Delivery Instructions on the letter of transmittal and only if the exchange notes are being issued directly to this registered holder or deposited into this participant s account at DTC, or

(2) for the account of a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc., a commercial bank or trust company having an office or correspondent in the United States or an eligible guarantor institution within the meaning of Rule 17Ad-15 under the Exchange Act.

If the letter of transmittal or any bond powers are signed by:

(1) the recordholder(s) of the initial notes tendered: the signature must correspond with the name(s) written on the face of the initial notes without alteration, enlargement or any change whatsoever.

(2) a participant in DTC: the signature must correspond with the name as it appears on the security position listing as the holder of the initial notes.

(3) a person other than the registered holder of any initial notes: these initial notes must be endorsed or accompanied by bond powers and a proxy that authorize this person to tender the initial notes on

behalf of the registered holder, in satisfactory form to us as determined in our sole discretion, in each case, as the name of the registered holder or holders appears on the initial notes.

(4) trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity: these persons should so indicate when signing. Unless waived by us, evidence satisfactory to us of their authority to so act must also be submitted with the letter of transmittal.

To tender your initial notes in the exchange offer, you must make the following representations:

(1) you are authorized to tender, sell, assign and transfer the initial notes tendered and to acquire exchange notes issuable upon the exchange of such tendered initial notes, and that we will acquire good and unencumbered title thereto, free and clear of all liens, restrictions, charges and encumbrances and not subject to any adverse claim when the same are accepted by us,

(2) any exchange notes acquired by you pursuant to the exchange offer are being acquired in the ordinary course of business, whether or not you are the holder,

(3) you or any other person who receives exchange notes, whether or not such person is the holder of the exchange notes, has an arrangement or understanding with any person to participate in a distribution of such exchange notes within the meaning of the Securities Act and is not participating in, and does not intend to participate in, the distribution of such exchange notes within the meaning of the Securities Act,

(4) you or such other person who receives exchange notes, whether or not such person is the holder of the exchange notes, is not an affiliate, as defined in Rule 405 of the Securities Act, of ours, or if you or such other person is an affiliate, you or such other person will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable,

(5) if you are not a broker-dealer, you represent that you are not engaging in, and do not intend to engage in, a distribution of exchange notes, and

(6) if you are a broker-dealer that will receive exchange notes for your own account in exchange for initial notes, you represent that the initial notes to be exchanged for the exchange notes were acquired by you as a result of market-making or other trading activities and acknowledge that you will deliver a prospectus in connection with any resale, offer to resell or other transfer of such exchange notes.

You must also warrant that the acceptance of any tendered initial notes by HGI and the issuance of exchange notes in exchange therefor shall constitute performance in full by HGI of its obligations under the Registration Rights Agreement relating to the initial notes.

To effectively tender notes through DTC, the financial institution that is a participant in DTC will electronically transmit its acceptance through the Automatic Tender Offer Program. DTC will then edit and verify the acceptance and send an agent s message to the exchange agent for its acceptance. An agent s message is a message transmitted by DTC to the exchange agent stating that DTC has received an express acknowledgment from the participant in DTC tendering the notes that this participant has received and agrees to be bound by the terms of the letter of transmittal, and that we may enforce this agreement against this participant.

Book-Entry Delivery Procedure

Any financial institution that is a participant in DTC s systems may make book-entry deliveries of initial notes by causing DTC to transfer these initial notes into the exchange agent s account at DTC in accordance with DTC s procedures for transfer. To effectively tender notes through DTC, the financial institution that is a participant in DTC will electronically transmit its acceptance through the Automatic Tender Offer Program. The DTC will then edit and verify the acceptance and send an agent s message to the exchange agent for its acceptance. An agent s message is a message transmitted by DTC to the exchange agent stating that DTC has received an express acknowledgment from the participant in DTC tendering the notes that this participation has received and agrees to be bound by the terms of the letter of transmittal, and that we may enforce this agreement against this participant. The exchange agent will make a request to establish an account for the initial notes at DTC for purposes of the exchange offer within two business days after the date of this prospectus.

A delivery of initial notes through a book-entry transfer into the exchange agent s account at DTC will only be effective if an agent s message or the letter of transmittal or a facsimile of the letter of transmittal with any required signature guarantees and any other required documents is transmitted to and received by the exchange agent at the address indicated below under Exchange Agent on or before the expiration date unless the guaranteed delivery procedures described below are complied with. **Delivery of documents to DTC does not constitute delivery to the exchange agent.**

Guaranteed Delivery Procedure

If you are a registered holder of initial notes and desire to tender your notes, and (1) these notes are not immediately available, (2) time will not permit your notes or other required documents to reach the exchange agent before the expiration date or (3) the procedures for book-entry transfer cannot be completed on a timely basis and an agent s message delivered, you may still tender in the exchange offer if:

(1) you tender through a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc., a commercial bank or trust company having an office or correspondent in the United States, or an eligible guarantor institution within the meaning of Rule 17Ad-15 under the Exchange Act,

(2) on or before the expiration date, the exchange agent receives a properly completed and duly executed letter of transmittal or facsimile of the letter of transmittal, and a notice of guaranteed delivery, substantially in the form provided by us, with your name and address as holder of the initial notes and the amount of notes tendered, stating that the tender is being made by that letter and notice and guaranteeing that within three NYSE trading days after the expiration date the certificates for all the initial notes tendered, in proper form for transfer, or a book-entry confirmation with an agent s message, as the case may be, and any other documents required by the letter of transmittal will be deposited by the eligible institution with the exchange agent, and

(3) the certificates for all your tendered initial notes in proper form for transfer or a book-entry confirmation as the case may be, and all other documents required by the letter of transmittal are received by the exchange agent within three NYSE trading days after the expiration date.

Acceptance of Initial Notes for Exchange; Delivery of Exchange Notes

Your tender of initial notes will constitute an agreement between you and us governed by the terms and conditions provided in this prospectus and in the related letter of transmittal.

We will be deemed to have received your tender as of the date when your duly signed letter of transmittal accompanied by your initial notes tendered, or a timely confirmation of a book-entry transfer of these notes into the exchange agent s account at DTC with an agent s message, or a notice of guaranteed delivery from an eligible institution is received by the exchange agent.

All questions as to the validity, form, eligibility, including time of receipt, acceptance and withdrawal of tenders will be determined by us in our sole discretion. Our determination will be final and binding.

We reserve the absolute right to reject any and all initial notes not properly tendered or any initial notes which, if accepted, would, in our opinion or our counsel s opinion, be unlawful. We also reserve the absolute right to waive any conditions of the exchange offer or irregularities or defects in tender as to particular notes with the exception of conditions to the exchange offer relating to the obligations of broker dealers, which we will not waive. If we waive a condition to the exchange offer, the waiver will be applied equally to all note holders. Our interpretation of the terms and conditions of the exchange offer, including the instructions in the letter of transmittal, will be final and binding on all parties. Unless waived, any defects or irregularities in

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connection with tenders of initial notes must be cured within such time as we shall determine. None of us, the exchange agent or any other person will be under any duty to give notification of defects or irregularities with respect to tenders of initial notes. None of us, the exchange agent or any other person will incur any liability for any failure to give notification of these defects or irregularities. Tenders of initial notes will not be deemed to have been made until such irregularities have been cured or waived. The exchange agent will return without cost to their holders any initial notes that are not properly tendered and as to which the defects or irregularities have not been cured or waived promptly following the expiration date.

If all the conditions to the exchange offer are satisfied or waived on the expiration date, we will accept all initial notes properly tendered and will issue the exchange notes promptly thereafter. Please refer to the section of this prospectus entitled Conditions to the Exchange Offer below. For purposes of the exchange offer, initial notes will be deemed to have been accepted as validly tendered for exchange when, as and if we give oral or written notice of acceptance to the exchange agent.

We will issue the exchange notes in exchange for the initial notes tendered pursuant to a notice of guaranteed delivery by an eligible institution only against delivery to the exchange agent of the letter of transmittal, the tendered initial notes and any other required documents, or the receipt by the exchange agent of a timely confirmation of a book-entry transfer of initial notes into the exchange agent s account at DTC with an agent s message, in each case, in form satisfactory to us and the exchange agent.

If any tendered initial notes are not accepted for any reason provided by the terms and conditions of the exchange offer or if initial notes are submitted for a greater principal amount than the holder desires to exchange, the unaccepted or non-exchanged initial notes will be returned without expense to the tendering holder, or, in the case of initial notes tendered by book-entry transfer procedures described above, will be credited to an account maintained with the book-entry transfer facility, promptly after withdrawal, rejection of tender or the expiration or termination of the exchange offer.

By tendering into the exchange offer, you will irrevocably appoint our designees as your attorney-in-fact and proxy with full power of substitution and resubstitution to the full extent of your rights on the notes tendered. This proxy will be considered coupled with an interest in the tendered notes. This appointment will be effective only when, and to the extent that, we accept your notes in the exchange offer. All prior proxies on these notes will then be revoked and you will not be entitled to give any subsequent proxy. Any proxy that you may give subsequently will not be deemed effective. Our designees will be empowered to exercise all voting and other rights of the holders as they may deem proper at any meeting of note holders or otherwise. The initial notes will be validly tendered only if we are able to exercise full voting rights on the notes, including voting at any meeting of the note holders, and full rights to consent to any action taken by the note holders.

Withdrawal of Tenders

Except as otherwise provided in this prospectus, you may withdraw tenders of initial notes at any time before 5:00 p.m., New York City time, on the expiration date.

For a withdrawal to be effective, you must send a written or facsimile transmission notice of withdrawal to the exchange agent before 5:00 p.m., New York City time, on the expiration date at the address provided below under Exchange Agent and before acceptance of your tendered notes for exchange by us.

Any notice of withdrawal must:

(1) specify the name of the person having tendered the initial notes to be withdrawn,

(2) identify the notes to be withdrawn, including, if applicable, the registration number or numbers and total principal amount of these notes,

(3) be signed by the person having tendered the initial notes to be withdrawn in the same manner as the original signature on the letter of transmittal by which these notes were tendered, including any required signature guarantees, or be accompanied by documents of transfer sufficient to permit the trustee

for the initial notes to register the transfer of these notes into the name of the person having made the original tender and withdrawing the tender,

(4) specify the name in which any of these initial notes are to be registered, if this name is different from that of the person having tendered the initial notes to be withdrawn, and

(5) if applicable because the initial notes have been tendered through the book-entry procedure, specify the name and number of the participant s account at DTC to be credited, if different than that of the person having tendered the initial notes to be withdrawn.

We will determine all questions as to the validity, form and eligibility, including time of receipt, of all notices of withdrawal and our determination will be final and binding on all parties. Initial notes that are withdrawn will be deemed not to have been validly tendered for exchange in the exchange offer.

The exchange agent will return without cost to their holders all initial notes that have been tendered for exchange and are not exchanged for any reason, promptly after withdrawal, rejection of tender or expiration or termination of the exchange offer.

You may retender properly withdrawn initial notes in the exchange offer by following one of the procedures described under Procedures for Tendering Initial Notes above at any time on or before the expiration date.

Conditions to the Exchange Offer

We will complete the exchange offer only if:

(1) there is no change in the laws and regulations which would reasonably be expected to impair our ability to proceed with the exchange offer,

(2) there is no change in the current interpretation of the staff of the SEC which permits resales of the exchange notes,

(3) there is no stop order issued by the SEC or any state securities authority suspending the effectiveness of the registration statement which includes this prospectus or the qualification of the indenture for the exchange notes under the Trust Indenture Act of 1939 and there are no proceedings initiated or, to our knowledge, threatened for that purpose,

(4) there is no action or proceeding instituted or threatened in any court or before any governmental agency or body that would reasonably be expected to prohibit, prevent or otherwise impair our ability to proceed with the exchange offer, and

(5) we obtain all the governmental approvals that we in our sole discretion deem necessary to complete the exchange offer.

These conditions are for our sole benefit. We may assert any one of these conditions regardless of the circumstances giving rise to it and may also waive any one of them, in whole or in part, at any time and from time to time, if we determine in our reasonable discretion that it has not been satisfied, subject to applicable law. Notwithstanding the foregoing, all conditions to the exchange offer must be satisfied or waived before the expiration of the exchange offer. If we waive a condition to the exchange offer, the waiver will be applied equally to all note holders. Each of these rights will be deemed an ongoing right which we may assert at any time and from time to time.

If we determine that we may terminate the exchange offer because any of these conditions is not satisfied, we may:

(1) refuse to accept and return to their holders any initial notes that have been tendered,

(2) extend the exchange offer and retain all notes tendered before the expiration date, subject to the rights of the holders of these notes to withdraw their tenders, or

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(3) waive any condition that has not been satisfied and accept all properly tendered notes that have not been withdrawn or otherwise amend the terms of the exchange offer in any respect as provided under the section in this prospectus entitled Expiration Date; Extensions; Amendments; Termination.

Accounting Treatment

We will record the exchange notes at the same carrying value as the initial notes as reflected in our accounting records on the date of the exchange. Accordingly, we will not recognize any gain or loss for accounting purposes. We will amortize the costs related to the issuance of the initial notes over the term of the initial notes and exchange notes and expense the costs of the exchange offer as incurred.

Exchange Agent

We have appointed Wells Fargo Bank, National Association as exchange agent for the exchange offer. You should direct all questions and requests for assistance on the procedures for tendering and all requests for additional copies of this prospectus or the letter of transmittal to the exchange agent as follows:

By mail:

Wells Fargo Bank,
National Association
Corporate Trust Operations
MAC N9303-121
PO Box 1517
Minneapolis, MN 55480

By hand/overnight delivery:

Wells Fargo Bank,
National Association
Corporate Trust Operations
MAC N9303-121
Sixth & Marquette Avenue
Minneapolis, MN 55479

Confirm by telephone: (800) 344-5128

Fees and Expenses

We will bear the expenses of soliciting tenders in the exchange offer, including fees and expenses of the exchange agent and trustee and accounting, legal, printing and related fees and expenses.

We will not make any payments to brokers, dealers or other persons soliciting acceptances of the exchange offer. However, we will pay the exchange agent reasonable and customary fees for its services and will reimburse the exchange agent for its reasonable out-of-pocket expenses in connection with the exchange offer. We will also pay brokerage houses and other custodians, nominees and fiduciaries their reasonable out-of-pocket expenses for forwarding copies of the prospectus, letters of transmittal and related documents to the beneficial owners of the initial notes and for handling or forwarding tenders for exchange to their customers.

We will pay all transfer taxes, if any, applicable to the exchange of initial notes in accordance with the exchange offer. However, tendering holders will pay the amount of any transfer taxes, whether imposed on the registered holder or any other persons, if:

(1) certificates representing exchange notes or initial notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be registered or issued in the name of, any person other than the registered holder of the notes tendered,

(2) tendered initial notes are registered in the name of any person other than the person signing the letter of transmittal, or

(3) a transfer tax is payable for any reason other than the exchange of the initial notes in the exchange offer.

If you do not submit satisfactory evidence of the payment of any of these taxes or of any exemption from this payment with the letter of transmittal, we will bill you directly the amount of these transfer taxes.

Your Failure to Participate in the Exchange Offer Will Have Adverse Consequences

The initial notes were not registered under the Securities Act or under the securities laws of any state and you may not resell them, offer them for resale or otherwise transfer them unless they are subsequently registered or resold under an exemption from the registration requirements of the Securities Act and applicable state securities laws. If you do not exchange your initial notes for exchange notes in accordance with the exchange offer, or if you do not properly tender your initial notes in the exchange offer, you will not be able to resell, offer to resell or otherwise transfer the initial notes unless they are registered under the Securities Act or unless you resell them, offer to resell or otherwise transfer them under an exemption from the registration requirements of, or in a transaction not subject to, the Securities Act.

In addition, except as set forth in this paragraph, you will not be able to obligate us to register the initial notes under the Securities Act. You will not be able to require us to register your initial notes under the Securities Act unless:

(1) because of any change in applicable law or in interpretations thereof by the SEC Staff, HGI is not permitted to effect the exchange offer;

(2) the exchange offer is not consummated by the 310th day after the Issue Date;

(3) any initial purchaser so requests with respect to initial notes held by it that are not eligible to be exchanged for exchange notes in the exchange offer; or

(4) any other holder is prohibited by law or SEC policy from participating in the exchange offer or any holder (other than an exchanging broker-dealer) that participates in the exchange offer does not receive freely tradeable Exchange Notes on the date of the exchange and, in each case, such holder so requests,

in which case the Registration Rights Agreement requires us to file a registration statement for a continuous offer in accordance with Rule 415 under the Securities Act for the benefit of the holders of the initial notes described in this sentence. We do not currently anticipate that we will register under the Securities Act any notes that remain outstanding after completion of the exchange offer.

Delivery of Prospectus

Each broker-dealer that receives exchange notes for its own account in exchange for initial notes, where such initial notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. See Plan of Distribution.

U.S. FEDERAL INCOME TAX CONSIDERATIONS

Subject to the limitations and qualifications set forth herein (including Exhibit 8.1 hereto), this discussion is the opinion of Paul, Weiss, Rifkind, Wharton & Garrison LLP, our U.S. federal income tax counsel. The following is a discussion of the material U.S. federal income tax considerations relevant to the exchange of initial notes for exchange notes pursuant to the exchange offer and the ownership and disposition of exchange notes acquired by United States Holders and non-United States Holders (each as defined below and collectively referred to as Holders) pursuant to the exchange offer. This discussion does not purport to be a complete analysis of all potential tax effects. The discussion is based on the Code, U.S. Treasury regulations issued thereunder (Treasury Regulations), rulings and pronouncements of the Internal Revenue Service (the IRS) and judicial decisions in effect or in existence as of the date of this prospectus, all of which are subject to change at any time or to different interpretations. Any such change may be applied retroactively in a manner that could adversely affect a Holder and the continued validity of this summary. This discussion does not address all of the U.S. federal income tax considerations that may be relevant to a Holder in light of such Holder s particular circumstances (for example, United States Holders subject to the alternative minimum tax provisions of the Code) or to Holders subject to special rules, such as certain financial institutions, U.S. expatriates, partnerships or other pass-through entities, insurance companies, regulated investment companies, real estate investment trusts, dealers in securities or currencies, traders in securities, Holders whose functional currency is not the U.S. dollar, tax-exempt organizations and persons holding the initial notes or exchange notes (collectively referred to as notes) as part of a straddle, hedge, or conversion transaction within the meaning of Section 1258 of the Code or other integrated transaction within the meaning of Treasury Regulations Section 1.1275-6. Moreover, the effect of any applicable state, local or foreign tax laws, or U.S. federal gift and estate tax law is not discussed. The discussion deals only with notes held as capital assets within the meaning of Section 1221 of the Code.

We have not sought and will not seek any rulings from the IRS with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning the tax consequences of the exchange of initial notes for exchange notes pursuant to the exchange offer and ownership or disposition of the exchange notes acquired by Holders pursuant to the exchange offer or that any such position would not be sustained.

If an entity taxable as a partnership for U.S. federal income tax purposes holds the notes, the U.S. federal income tax treatment of a partner (or other owner) will depend on the status of the partner (or other owner) and the activities of the entity. Such partner (or other owner) should consult its tax advisor as to the tax consequences of the entity s purchasing, owning and disposing of the notes.

Prospective investors should consult their own tax advisors with regard to the application of the tax consequences discussed below to their particular situations as well as the application of any state, local, foreign or other tax laws, including gift and estate tax laws.

United States Holders

This section applies to United States Holders. A United States Holder is a beneficial owner of notes that is:

a citizen or resident alien of the United States as determined for U.S. federal income tax purposes,

a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, an estate the income of which is subject to U.S. federal income tax regardless of its source, or

a trust (i) if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have authority to control all substantial decisions of the trust, or (ii) that has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person for U.S. federal income tax purposes.

Exchange Offer

Exchanging an initial note for an exchange note will not be treated as a taxable exchange for U.S. federal income tax purposes. Consequently, United States Holders will not recognize gain or loss upon receipt of an exchange note. The holding period for an exchange note will include the holding period for the initial note and the initial basis in an exchange note will be the same as the adjusted basis in the initial note.

Payments upon Change of Control or Other Circumstances

In certain circumstances we may be obligated to pay amounts in excess of stated interest or principal on the exchange notes, or to pay the full principal amount of some or all of the exchange notes before their stated maturity date. These features of the exchange notes may implicate the provisions of the Treasury Regulations governing contingent payment debt instruments. A debt instrument is not subject to these provisions, however, if, at the date of its issuance, there is only a remote chance that contingencies affecting the instrument s yield to maturity will occur. We believe that the likelihood that we will be obligated to make such payments in amounts or at times that affect the exchange notes yield to maturity is remote, and we do not intend to treat the exchange notes as contingent payment debt instruments. Our determination that the contingencies giving rise to such payments are remote is binding on a United States Holder unless such United States Holder discloses its contrary position in the manner required by applicable Treasury Regulations. Our determination is not, however, binding on the IRS, and if the IRS were to challenge this determination, a United States Holder might be required to accrue income on its exchange notes in excess of stated interest and to treat as ordinary income rather than as capital gain any income realized on the taxable disposition of an exchange note before the resolution of the contingencies. The remainder of this summary assumes that the exchange notes will not be subject to the Treasury Regulations governing contingent payment debt instruments.

Qualified Reopening

We intend to treat the issuance of the initial notes as a qualified reopening of the issuance of the existing notes, which were issued with original issue discount (OID). Accordingly, for U.S. federal income tax purposes, the exchange notes will be treated as issued with OID and as having the same adjusted issue price as the existing notes. Because the initial notes were issued with bond premium (see Bond Premium, below), United States Holders will not include OID in income, even though the exchange notes stated redemption price at maturity exceeds the issue price of the exchange notes.

Pre-Issuance Accrued Interest

A portion of the price paid for an initial note will be allocable to interest that accrued prior to the date the initial note was purchased, or pre-issuance accrued interest, and an exchange note received in exchange for an initial note should have the same amount of pre-issuance accrued interest as the initial note had. To the extent a United States Holder s exchange note has pre-issuance accrued interest, a portion of the first stated interest payment equal to the amount of excluded pre-issuance accrued interest (i) will be treated as a nontaxable return of such preissuance accrued interest to the United States Holder and (ii) will not be deductible by us as an interest expense. Amounts treated as a return of pre-issuance accrued interest will reduce a United States Holder s adjusted tax basis in the exchange note by a corresponding amount.

Interest

Absent an election to the contrary (see Election to Treat All Interest as Original Issue Discount (Constant Yield Method), below) and subject to the return of pre-issuance accrued interest (see Pre-Issuance Accrued Interest, above), qualified stated interest (QSI) on the exchange notes will be taxable to a United States Holder as ordinary income at the time it is received or accrued, in accordance with such United States Holder s method of tax accounting. We expect the regular interest payments made on the exchange notes to be treated as QSI. An interest payment on a debt instrument is QSI if it is one of a series of stated interest payments on a debt instrument that are unconditionally payable at least annually at a single fixed rate, applied to the outstanding principal amount of the debt instrument.

Market Discount, Acquisition Premium and Bond Premium

Market Discount. If a United States Holder purchased an initial note (which will be exchanged for an exchange note pursuant to the exchange offer) for an amount that is less than its revised issue price, the amount of the difference should be treated as market discount for U.S. federal income tax purposes. Any market discount applicable to an initial note should carry over to the exchange note received in exchange therefor. The amount of any market discount will be treated as de minimis and disregarded if it is less than one-quarter of one percent of the revised issue price of the initial note, multiplied by the number of complete years to maturity. For this purpose, the revised issue price of an initial note equals the issue price of the initial note. Although the Code does not expressly so provide, the revised issue price of the initial note is decreased by the amount of any payments previously made on the initial note (other than payments of QSI). The rules described below do not apply to a United States Holder if such holder purchased an initial note that has de minimis market discount.

Under the market discount rules, a United States Holder is required to treat any principal payment on, or any gain on the sale, exchange, redemption or other disposition of, an exchange note as ordinary income to the extent of any accrued market discount (on the initial note or the exchange note) that has not previously been included in income. If a United States Holder disposes of an exchange note in an otherwise nontaxable transaction (other than certain specified nonrecognition transactions), such holder will be required to include any accrued market discount as ordinary income as if such holder had sold the exchange note at its then fair market value. In addition, such holder may be required to defer, until the maturity of the exchange note or its earlier disposition in a taxable transaction, the deduction of a portion of the interest expense on any indebtedness incurred or continued to purchase or carry the initial note or the exchange note received in exchange therefor.

Market discount accrues ratably during the period from the date on which such holder acquired the initial note through the maturity date of the exchange note (for which the initial note was exchanged), unless such holder makes an irrevocable election to accrue market discount under a constant yield method. Such holder may elect to include market discount in income currently as it accrues (either ratably or under the constant yield method), in which case the rule described above regarding deferral of interest deductions will not apply. If such holder elects to include market discount in income currently, such holder s adjusted basis in an exchange note will be increased by any market discount included in income. An election to include market discount currently will apply to all market discount obligations acquired during or after the first taxable year in which the election is made, and the election may not be revoked without the consent of the IRS. If a United States Holder makes the election described below in Election to Treat All Interest as Original Issue Discount (Constant Yield Method) for a market discount note, such holder would be treated as having made an election to include market discount in income currently under a constant yield method, as discussed in this paragraph.

Acquisition Premium. If a United States Holder purchased an initial note (which will be exchanged for an exchange note pursuant to the exchange offer) for an amount that is less than or equal to the sum of all amounts payable on the initial note (other than QSI) after the purchase date, including pre-issuance accrued interest, but is greater than the adjusted issue price of such initial note, the excess is acquisition premium. Any acquisition premium applicable to an initial note should carry over to the exchange note received in exchange therefor. If such holder does not elect to include all interest income on the exchange notes in gross income under the constant yield method (see Election to Treat All Interest as Original Issue Discount (Constant Yield Method), below), such holder s accruals of OID will be reduced by a fraction equal to (i) the excess of such holder s adjusted basis in the initial note immediately after the purchase over the adjusted issue price of the initial note, divided by (ii) the excess of the sum of all amounts payable (other than QSI) on the initial note after the purchase date over the adjusted issue price of the initial note.

Bond Premium. If a United States Holder purchased an initial note (which will be exchanged for an exchange note pursuant to the exchange offer) for an amount in excess of the sum of all amounts payable on the initial note (other than QSI), including pre-issuance accrued interest, the excess will be treated as bond premium. Any bond premium applicable to an initial note should carry over to the exchange note received in exchange therefor. A United States Holder may elect to reduce the amount required to be included in income each year with respect to interest on its note by the amount of amortizable bond premium allocable to that year, based on the exchange note s yield to maturity. However, because the exchange notes may be redeemed by us prior to maturity at a premium, special rules apply that may reduce or eliminate the amount of premium that a U.S. Holder may amortize with respect to an exchange note. United States Holders should consult their tax advisors about these special rules, including whether it would be advisable to elect to treat all interest on the exchange notes as OID (see Election to Treat All Interest as Original Issue Discount (Constant Yield Method), below), which would result in a United States Holder not being subject to these special rules. If a United States Holder makes the election to amortize bond premium, it will apply to all debt instruments (other than debt instruments the interest on which is excludible from gross income) that the United States Holder holds at the beginning of the first taxable year to which the election applies or thereafter acquires, and the election may not be revoked without the consent of the IRS. See also Election to Treat All Interest as Original Issue Discount (Constant Yield Method), below.

Election to Treat All Interest as Original Issue Discount (Constant Yield Method)

A United States Holder may elect to include in gross income all interest (as defined below) that accrues on its exchange note using the constant-yield method described below. For purposes of this election, interest will include stated interest (including, for this purpose only, pre-issuance accrued interest, as described in Pre-Issuance Accrued Interest, above), market discount and de minimis market discount, as reduced by any amortizable bond premium (described in Bond Premium, above) or acquisition premium (described in Acquisition Premium, above). A United States Holder that makes this election will be required to include interest in gross income for U.S. federal income tax purposes as it accrues (regardless of its method of tax accounting), which may be in advance of receipt of the cash attributable to that income.

Although this election applies only to the exchange note for which a United States Holder makes it, an electing United States Holder will be deemed to have made the election described in Bond Premium, above, to apply amortizable bond premium against interest for all debt instruments with amortizable bond premium (other than debt instruments the interest on which is excludible from gross income) that it holds at the beginning of the taxable year to which the election applies or any taxable year thereafter. Additionally, if a United States Holders makes this election for a market discount note, such holder will be treated as having made the election discussed above under Market Discount, Acquisition Premium and Bond Premium Market Discount to include market discount in income currently over the life of all debt instruments that the United States holder hold at the time of the election or acquire thereafter. A United States Holder may not revoke an election to apply the constant-yield method to all interest on an exchange note without the consent of the IRS.

If a United States Holder makes this election for its exchange note, then no payments on the exchange note will be treated as payments of QSI, and the annual amounts of interest includible in income by the United States Holder will equal the sum of the daily portions of the interest with respect to the exchange note for each day on which the United States Holder owns the exchange note during the taxable year. Generally, the United States Holder determines the daily portions of interest by allocating to each day in an accrual period a pro rata portion of the interest that is allocable to that accrual period. The term accrual period means an interval of time with respect to which the accrual of interest is measured and which may vary in length over the term of an exchange note provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on either the first or last day of an accrual period. For purposes of this election, the issue date of the exchange note is the date the United States Holder purchases the exchange note.

The amount of interest allocable to an accrual period will equal the product of the adjusted issue price of the exchange note at the beginning of the accrual period and its yield to maturity. The adjusted issue price of an exchange note at the beginning of the first accrual period is the purchase price, and, on any day thereafter, it is the sum of the issue price and the amount of interest previously included in gross income, reduced by the amount of any payment previously made on the exchange note. If all accrual periods are of equal length except for a shorter initial and/or final accrual period, the United States Holder can compute the amount of interest allocable to the initial period using any reasonable method; however, the interest allocable to the final accrual period will always be the difference between the amount payable at maturity and the adjusted issue price at the beginning of the final accrual period.

Sale or Other Taxable Disposition of the Exchange Notes

A United States Holder will recognize gain or loss on the sale, exchange, redemption, retirement or other taxable disposition of an exchange note equal to the difference, if any, between the amount realized upon the disposition (less any portion allocable to any accrued and unpaid interest, which will be taxable as ordinary income to the extent not previously included in such holder s income) and the United States Holder s adjusted tax basis in the exchange note at the time of disposition. A United States Holder s adjusted tax basis in an exchange note will be the price such holder paid for the initial note, increased by any market discount previously included in gross income and reduced (but not below zero) by (i) payments of any amounts treated as a return of pre-issuance accrued interest with respect to the exchange note, (ii) the amount of any amortizable bond premium taken into account with respect to the exchange note and (iii) other payments, if any, such holder previously received other than stated interest payments. This gain or loss will be a capital gain or loss (except to the extent of accrued interest not previously includible in income or to the extent the market discount rules require the recognition of ordinary income) and will be long-term capital gain or loss if the United States Holder has held the exchange note for more than one year. Otherwise, such gain or loss will be a short-term capital gain or loss. Long-term capital gains of noncorporate United States Holders, including individuals, may be taxed at lower rates than items of ordinary income. The deductibility of capital losses is subject to limitations.

Medicare Contribution Tax on Unearned Income

For taxable years beginning after December 31, 2012, a 3.8% Medicare tax will be imposed on the lesser of the net investment income or the amount by which modified adjusted gross income exceeds a threshold amount, in either case, of United States Holders that are individuals, estates and trusts. Net investment income includes, among other things, interest income not derived from the conduct of a nonpassive trade or business. Payments of interest (or, in the event a United States Holder makes the election described in Election to Treat All Interest as Original Issue Discount (Constant Yield Method), above, accruals of interest (as that term in used in Election to Treat All Interest as Original Issue Discount (Constant Yield Method), above) on the exchange notes are expected to constitute net investment income.

Information Reporting and Backup Withholding

Information reporting requirements will apply to United States Holders that are not exempt recipients, such as corporations, with respect to certain payments of interest on the exchange notes and the proceeds of disposition (including a retirement or redemption of an exchange note). Even though United States Holders do not include original issue discount on the exchange notes in their gross income, the issuer will report such original issue discount to the IRS and United States Holders on Form 1099-OID. In addition, a United States Holder other than certain exempt recipients may be subject to backup withholding on the receipt of certain payments on the exchange notes if such holder:

fails to provide a correct taxpayer identification number (TIN), which for an individual is ordinarily his or her social security number, is notified by the IRS that it is subject to backup withholding,

fails to certify, under penalties of perjury, that it has furnished a correct TIN and that the IRS has not notified the United States Holder that it is subject to backup withholding, or otherwise fails to comply with applicable requirements of the backup withholding rules.

United States Holders should consult their own tax advisors regarding their qualification for an exemption from backup withholding and the procedures for obtaining such an exemption, if applicable. Backup withholding is not an additional tax and taxpayers may use amounts withheld as a credit against their U.S. federal income tax liability or may claim a refund as long as they timely provide certain information to the IRS.

Non-United States Holders

This section applies to non-United States Holders. A non-United States Holder is a beneficial owner of notes that is not a United States Holder and that is an individual, corporation (or other entity taxable as a corporation for U.S. federal income tax purposes), estate or trust.

Exchange Offer

Non-United States Holders should not recognize gain or loss upon receipt of an exchange note in exchange for an initial note pursuant to the exchange offer.

Interest Payments

Subject to the discussion below concerning effectively connected income and backup withholding, interest paid to a non-United States Holder on an exchange note (which, for purposes of the non-United States Holder discussion, includes any accruals of interest (as that term in used in Election to Treat All Interest as Original Issue Discount (Constant Yield Method), above, in the event the non- United States Holder makes the election described in Election to Treat All Interest as Original Issue Discount (Constant Yield Method), above) will not be subject to U.S. federal income tax or withholding tax, provided that such non-United States Holder meets the following requirements:

Such holder does not own, actually or constructively, for U.S. federal income tax purposes, stock constituting 10% or more of the total combined voting power of all classes of our stock entitled to vote.

Such holder is not, for U.S. federal income tax purposes, a controlled foreign corporation related, directly or indirectly, to us through equity ownership.

Such holder is not a bank receiving interest on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business.

Such holder provides a properly completed IRS Form W-8BEN certifying its non-U.S. status.

The gross amount of payments of interest that do not qualify for the exception from withholding described above will be subject to U.S. withholding tax at a rate of 30%, unless (i) such holder provides a properly completed IRS Form W-8BEN claiming an exemption from or reduction in withholding under an applicable tax treaty, or (ii) such interest is effectively connected with such holder s conduct of a U.S. trade or business and such holder provides a properly completed IRS Form W-8ECI.

Sale or Other Taxable Disposition of the Exchange Notes

Subject to the discussion below concerning backup withholding, a non-United States Holder will not be subject to U.S. federal income tax or withholding tax on any gain recognized on the sale, exchange, redemption, retirement or other disposition of an exchange note unless:

such holder is an individual present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met, in which case such holder will be subject to a 30% tax (or a lower applicable treaty rate) with respect to such gain (offset by certain U.S. source capital losses), or such gain is effectively connected with such holder s conduct of a trade or business in the United States, in which case such holder will be subject to tax as described below under Effectively Connected Income.

Any amounts in respect of accrued interest recognized on the sale or exchange of an exchange note will not be subject to U.S. federal withholding tax, unless the sale or exchange is part of a plan the principal purpose of which is to avoid tax and the withholding agent has actual knowledge or reason to know of such plan.

Effectively Connected Income

If interest or gain from a disposition of the exchange notes is effectively connected with a non-United States Holder s conduct of a U.S. trade or business, such holder will be subject to U.S. federal income tax on the interest or gain on a net income basis in the same manner as if such holder were a United States Holder, unless an applicable income tax treaty provides otherwise. The interest or gain in respect of the exchange notes would be exempt from U.S. withholding tax if such holder claims the exemption by providing a properly completed IRS Form W-8ECI. In addition, if such holder is a foreign corporation, such holder may also be subject to a branch profits tax on its effectively connected earnings and profits for the taxable year, subject to certain adjustments, at a rate of 30% unless reduced or eliminated by an applicable tax treaty.

Information Reporting and Backup Withholding

Unless certain exceptions apply, we must report to the IRS and to a non-United States Holder any payments to such holder in respect of interest during the taxable year. In addition, even though original issue discount on the exchange notes is not includible in gross income, the issuer will report such original issue discount to the IRS and to the non-United States Holder on Form 1099-OID. Under current U.S. federal income tax law, backup withholding tax will not apply to payments of interest by us or our paying agent on an exchange note to a non-United States Holder, if such holder provides us with a properly completed IRS Form W-8BEN, provided that we or our paying agent, as the case may be, do not have actual knowledge or reason to know that such holder is a U.S. person.

Payments pursuant to the sale, exchange or other disposition of exchange notes, made to or through a foreign office of a foreign broker, other than payments in respect of interest, will not be subject to information reporting and backup withholding; provided that information reporting may apply if the foreign broker has certain connections to the United States, unless the beneficial owner of the exchange note certifies, under penalties of perjury, that it is not a U.S. person, or otherwise establishes an exemption. Payments made to or through a foreign office of a U.S. broker will not be subject to backup withholding, but are subject to information reporting unless the beneficial owner of the exchange note certifies, under penalties of perjury, that it is not a U.S. person, or otherwise establishes an exemption. Payments to or through a U.S. office of a broker, however, are subject to information reporting and backup withholding, unless the beneficial owner of the exchange notes certifies, under penalties of perjury, that it is not a U.S. person, or otherwise establishes an exemption.

Backup withholding is not an additional tax; any amounts withheld from a payment to a non-United States Holder under the backup withholding rules will be allowed as a credit against such holder s U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the IRS. Non-United States Holders should consult their own tax advisors regarding application of withholding and backup withholding in their particular circumstance and the availability of and procedure for obtaining an exemption from withholding and backup withholding under current Treasury Regulations.

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DESCRIPTION OF NOTES

In this Description of Notes, HGI refers only to Harbinger Group Inc., and any successor obligor on the notes, and not to any of its subsidiaries. You can find the definitions of certain terms used in this description under Certain Definitions.

The terms of the notes include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939. Prior to the offering of the initial notes there were $350.0 million aggregate principal amount of existing 10.625% Senior Secured Notes due 2015 already outstanding under the indenture. As a result, the terms Issue Date and date of the indenture refer to November 15, 2010, the date of issuance of the existing notes. As used in this Description of Notes, except as otherwise specified, the term notes mean the existing notes together with the initial notes and the exchange notes. All such notes will vote together as a single class for all purposes of the indenture and will vote together as one class on all matters with respect to the notes and, following completion of the exchange offer, will bear the same CUSIP number as the existing notes.

The following is a summary of the material provisions of the indenture. Because this is a summary, it may not contain all the information that is important to you. You should read the indenture in its entirety. Copies of the indenture are available as described under Where You Can Find More Information.

Basic Terms of Notes

The notes are:

- senior secured obligations of HGI, that will be secured by a first priority Lien (subject to certain exceptions and Permitted Liens) on the Collateral referred to below;
- ranked equally in right of payment with all existing and future unsubordinated Debt of HGI and effectively senior to all unsecured Debt of HGI to the extent of the value of the Collateral; and
- ranked senior in right of payment to all of HGI s and the Guarantors future Debt that expressly provides for its subordination to the notes and the Note Guarantees.

Maturity and Interest

The notes will mature on November 15, 2015. Interest on the notes will accrue at the rate of 10.625% per annum. HGI will pay interest on the notes semi-annually in arrears on May 15 and November 15 of each year, commencing on November 15, 2011, to holders of record on the immediately preceding May 1 and November 1. Interest on the notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from May 15, 2011. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

HGI will pay interest on overdue principal of the notes at a rate equal to 1.0% per annum in excess of the rate per annum set forth on the cover of this prospectus and will pay interest on overdue installments of interest at such higher rate, in each case to the extent lawful. Additional interest is payable with respect to the notes in certain circumstances if HGI does not consummate the exchange offer (or shelf registration, if applicable) as further described under Registration Rights; Additional Interest.

Additional Notes

Subject to the covenants described below, HGI may issue additional notes under the indenture in an unlimited principal amount having the same terms in all respects as the notes, or in all respects except with respect to interest paid or payable on or prior to the first interest payment date after the issuance of such notes. The notes offered hereby are additional notes. The existing notes, the initial notes and the exchange notes offered hereby will be treated as a single class for all purposes under the indenture and will vote together as one class on all matters with respect to the notes.

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Guaranties

If any Subsidiary of HGI guarantees any Debt of HGI, such Subsidiary must provide a full and unconditional guaranty of the notes (a *Note Guaranty*).

Each Note Guaranty will be limited to the maximum amount that would not render the Guarantor s obligations subject to avoidance under applicable fraudulent conveyance provisions of the United States Bankruptcy Code or any comparable provision of state law. By virtue of this limitation, a Guarantor s obligation under its Note Guaranty could be significantly less than amounts payable with respect to the notes, or a Guarantor may have effectively no obligation under its Note Guaranty.

The Note Guaranty of a Guarantor will terminate upon:

(1) a sale or other disposition (including by way of consolidation or merger) of the Guarantor or the sale or disposition of all or substantially all the assets of the Guarantor (other than to HGI or a Subsidiary of HGI) permitted by the indenture,

(2) a Guarantor ceases to guarantee any Debt of HGI, or

(3) defeasance or discharge of the notes, as provided in Defeasance and Discharge .

There are no Guarantors as of the date hereof.

Ranking

The indebtedness evidenced by the notes ranks equally in right of payment with all future senior Debt of HGI, and has the benefit of a first-priority security interest in the Collateral as described under Collateral .

As of April 3, 2011, on a pro forma basis, HGI would have had no Debt other than the notes. Subject to the limits described under Certain Covenants Limitation on Debt and Disqualified Stock and Limitation on Liens , HGI may incur additional Debt, some of which may be secured.

HGI is organized and intended to be operated as a holding company that will own Equity Interests of various Subsidiaries. It is not expected that future-operating Subsidiaries will guarantee the notes. Claims of creditors of non-guarantor Subsidiaries, including trade creditors, and creditors holding debt and guarantees issued by those Subsidiaries, and claims of preferred stockholders (if any) of those Subsidiaries generally will have priority with respect to the assets and earnings of those Subsidiaries over the claims of creditors of HGI, including holders of the notes, and holders of minority interests in such Subsidiaries will have ratable claims with claims of creditors of HGI. The notes therefore will be effectively subordinated to creditors (including trade creditors) and preferred stockholders (if any) of Subsidiaries of HGI. As of April 3, 2011, the total liabilities of Spectrum Brands Holdings were approximately $2.8 billion, including trade payables. As of March 31, 2011 the total liabilities of F&G Holdings were approximately $19.2 billion, including approximately $14.8 billion in annuity contractholder funds and approximately $3.8 billion in future policy benefits. The indenture does not limit the incurrence of Debt (or other liabilities) and Disqualified Stock of Subsidiaries that are not guarantors. See Certain Covenants Limitation on Debt and Disqualified Stock .

HGI s ability to pay interest on the notes is dependent upon the receipt of dividends and other distributions from its Subsidiaries. The availability of distributions from its Subsidiaries will be subject to the satisfaction of various covenants and conditions contained in the applicable Subsidiary s existing and future financing and organizational documents, as well as applicable law, rule and regulation. See Risk Factors Risks Related to the Notes We are a holding company and will be dependent upon dividends or distributions from our operating subsidiaries to fund payments on the notes, and our ability to receive funds from our operating subsidiaries is dependent upon the profitability of our operating subsidiaries and restrictions imposed by law and contracts.

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Security

General

HGI s obligations under the notes and the indenture are secured by a first priority Lien on all assets of HGI (other than Excluded Property, and subject to certain Permitted Collateral Liens), including without limitation:

- all Equity Interests of direct subsidiaries owned by HGI and related assets, including all general intangibles under contracts (including without limitation, the registration rights agreement) that HGI has with Spectrum;
- all cash and investment securities owned by HGI;
- all general intangibles owned by HGI; and
- any proceeds thereof (collectively, the *Collateral*).

HGI will be able to Incur a limited amount of additional Debt in the future that could equally and ratably share in the Collateral. The amount of such Debt will be limited by the covenants described under Certain Covenants Limitation on Debt and Disqualified Stock and Limitation on Liens.

After-Acquired Property

If any property (other than Excluded Property) is acquired by HGI or a Guarantor that is not automatically subject to a perfected security interest under the Security Documents, any Excluded Property ceases to fit within the definition thereof, or a Subsidiary becomes a Guarantor, then HGI or such Guarantor will, promptly after such property s acquisition, such property ceasing to be Excluded Property or such Subsidiary becoming a Guarantor, provide security over such property (or, in the case of a new Guarantor, all of its assets (except any Excluded Property)) in favor of Wells Fargo Bank, National Association, as collateral agent (the *Collateral Agent*) and deliver certain certificates to the Collateral Agent and opinions in respect thereof as specified in the indenture and the Security Documents.

Security Agreement

The security interests described above were effected pursuant to a Security and Pledge Agreement. So long as no Event of Default shall have occurred and be continuing, and subject to certain terms and conditions, HGI will be entitled to exercise any voting and other consensual rights pertaining to all Equity Interests pledged pursuant to the Security and Pledge Agreement and to remain in possession and retain exclusive control over the Collateral (other than as set forth in the Security and Pledge Agreement) and to collect, invest and dispose of any income or dividends thereon. The Security and Pledge Agreement, however, generally requires HGI to deliver to the Collateral Agent, and for the Collateral Agent to maintain in its control and possession, certificates evidencing pledges of Equity Interests or, in the case of Equity Interests that are uncertificated or held through a securities intermediary, control through registration of such interests in the name of the Collateral Agent. Upon the occurrence and during the continuance of an Event of Default, the Security and Pledge Agreement provides that the Collateral Agent may, and upon the instructions of the Authorized Representatives (as set forth below under Collateral Trust Agreement) shall, foreclose upon and sell the applicable Collateral and distribute the net proceeds of any such sale to the trustee and the holders of the notes and other Pari Passu Obligations, subject to applicable laws and applicable governmental requirements. Upon such event and until the relevant Event of Default is cured or waived, all of the rights of HGI or the applicable Guarantor to exercise voting or other consensual rights with respect to the Collateral shall cease, and all such rights shall become vested in the Collateral Agent, which, to the extent permitted by law, shall have the sole right to exercise such voting and other consensual rights.

The Security and Pledge Agreement, the Collateral Trust Agreement and the indenture provide that HGI and each Guarantor shall, at its sole expense, do all acts which may be reasonably necessary to confirm that the Collateral Agent holds, for the benefit of the holders of the notes and the trustee, duly created, enforceable and perfected first-priority Liens in the Collateral, subject to Permitted Collateral Liens. As necessary, or upon reasonable request of the Collateral Agent, HGI and each Guarantor shall, at its sole expense, execute, acknowledge and deliver such documents and instruments (including the filing of financing statements or amendments or continuations thereto) and take such other actions which may be necessary to assure, perfect, transfer and confirm the rights conveyed by the Security and Pledge Agreement and any other Security Documents, to the extent permitted by applicable law.

The Security and Pledge Agreement also provides that, on the earlier to occur of (i) the occurrence of a Default, (ii) such time as Spectrum becomes a well-known seasoned issuer as defined under the Securities Act rules and regulations, and (iii) at any time that the Liquid Collateral Coverage Ratio is less than 1.75 to 1, HGI will be required to exercise all of its contractual rights and use its commercially reasonable efforts to, as promptly as possible, cause Spectrum to file and become effective a shelf registration that shall be in form suitable for use by the Collateral Agent in connection with any disposition of Spectrum Equity Interests constituting part of the Collateral in connection with any exercise of remedies, and to keep such shelf registration statement effective at all times until the earlier of the time (i) the notes are repaid in full or (ii) all Spectrum Equity Interests pledged as Collateral have been disposed of by the Collateral Agent.

Collateral Trust Agreement

General

On the Issue Date, HGI (together with any Guarantors, the *Trustors*), the trustee and the Collateral Agent entered into the Collateral Trust Agreement. The Collateral Trust Agreement sets forth the terms on which the Collateral Agent (directly or through co-trustees or agents) will accept, hold, administer, enforce and distribute the proceeds of all Liens on the Collateral held by it in trust for the benefit of holders of the notes, and all other Pari-Passu Obligations (as defined below). The agent or other representative of the holders of any series of future Debt (together with the trustee, the *Authorized Representatives*) intended to constitute Obligations secured equally and ratably by Liens on the Collateral (collectively, *Pari-Passu Obligations*) will be required to execute a joinder to the Collateral Trust Agreement in order to confirm the agreement of the applicable secured parties to be bound by the terms thereof.

Equal and Ratable Sharing of Collateral

Pursuant to the Collateral Trust Agreement, each Authorized Representative (on behalf of itself and each holder of Obligations that it represents) will acknowledge and agree that, pursuant to the Security Documents, the security interest granted to the Collateral Agent under the Security Documents shall for all purposes and at all times secure the Obligations in respect of the notes, the Note Guarantees, and any other Pari-Passu Obligations on an equal and ratable basis, to the extent such Liens have not been released in accordance with the terms of the indenture.

Enforcement of Liens; Voting

The Collateral Trust Agreement provides that if an event of default shall have occurred and be continuing under the indenture or any Pari-Passu Obligation, and if the Collateral Agent shall have received a written direction from Authorized Representatives that collectively represent at least a majority in principal amount of the Pari-Passu Obligations (each such representative acting at the direction of holders of the obligations so represented by it), unless inconsistent with applicable law, the Collateral Agent shall pursuant to such direction, institute and maintain such suits and proceedings as it may deem appropriate to protect and enforce the rights vested in it by the Collateral Trust Agreement and each Security Document, including the exercise of any trust or power conferred on the Collateral Agent, or for the appointment of a receiver, or for the taking of any remedial action authorized by the Collateral Trust Agreement.

The right of the Collateral Agent to repossess and dispose of the Collateral upon the occurrence and during the continuance of an Event of Default under the indenture:

- in the case of Collateral securing Permitted Liens, is subject to applicable law and the terms of agreements governing those Permitted Liens;

with respect to any Collateral, is subject to applicable law and is likely to be significantly impaired by applicable bankruptcy law if a bankruptcy case were to be commenced by or against HGI or any of the Guarantors prior to the Collateral Agent having repossessed and disposed of the Collateral; and

in the case of Equity Interests, is subject to applicable securities laws, which may require that any such sale be effected through a private placement (which could require such disposition to be made at a discount to prices that could be obtained in the public markets) or through an SEC registration.

Order of Application of Proceeds of Collateral

Any proceeds of any Collateral foreclosed upon or otherwise realized upon pursuant to the Security Documents will be applied in the following order:

first, to the Collateral Agent to pay any costs and expenses due to the Collateral Agent in connection with the foreclosure or realization of such Collateral,

second, to the trustee and each other Authorized Representative (if any), equally and ratably (in the same proportion that such unpaid Pari-Passu Obligations of the trustee or such other Authorized Representative, as applicable, bears to all unpaid Pari-Passu Obligations (on the relevant distribution date) for application to the payment in full of all outstanding Pari-Passu Obligations that are then due and payable to the secured parties (which shall then be applied or held by the trustee and each such other Authorized Representative in such order as may be provided in the applicable indenture or other instrument governing such Debt); and

finally, in the case of any surplus, to HGI or the Guarantor that pledged such Collateral, or its successors or assigns.

Subject to the terms of applicable agreements, the application of proceeds provisions set forth immediately above are intended for the benefit of, and will be enforceable as a third party beneficiary by, each present and future holder of Pari-Passu Obligations, the trustee, each other present and future Authorized Representative and the Collateral Agent.

Release of Liens

The Liens on the Collateral securing the notes and the Note Guarantees will be released:

(1) upon payment in full of principal, interest and all other Obligations on the notes or satisfaction and discharge of the indenture or defeasance (including covenant defeasance of the notes);

(2) upon release of a Note Guarantee (with respect to the Liens securing such Note Guarantee granted by such Guarantor);

(3) in connection with any disposition of Collateral to any Person other than HGI or any Guarantor (but excluding any transaction subject to the covenant described under Consolidation, Merger or Sale of Assets) that is permitted by the indenture (with respect to the Lien on such Collateral); *provided that*, except in the case of any disposition of Cash Equivalents in the ordinary course of business, upon such disposition and after giving effect thereto, no Default shall have occurred and be continuing, and HGI would be in compliance with the covenants set forth under Certain Covenants Maintenance of Liquidity, and Maintenance of Collateral Coverage (calculated as if the disposition date was a date on which such covenant is required to be tested under Maintenance of Collateral Coverage);

(4) in whole or in part, with the consent of the holders of the requisite percentage of notes in accordance with the provisions described under the caption Amendments and Waivers, including the release of all or substantially all of the Collateral if approved by holders of at least 75% of the aggregate principal amount of the notes; or

(5) with respect to assets that become Excluded Property.

Each of the releases described in clauses 1, 2, 3 and 5 shall be effected by the Collateral Agent upon receipt of appropriate notice of instruction, to the extent required, without the consent of holders or any action on the part of the trustee.

Upon compliance by HGI or any Guarantor, as the case may be, with the conditions precedent required by the indenture, the trustee or the Collateral Agent shall promptly cause to be released and re-conveyed to HGI or the Guarantor, as the case may be, the released Collateral.

To the extent applicable, HGI will comply with Section 313(b) of the Trust Indenture Act relating to reports, but will not be subject to Section 314(d) of the Trust Indenture Act, relating to the release of property and to the substitution therefor of any property to be pledged as collateral for the notes except to the extent required by law. Any certificate or opinion required by Section 314(d) of the Trust Indenture Act may be made by an officer of HGI except in cases where Section 314(d) requires that such certificate or opinion be made by an independent engineer, appraiser or other expert. The most recent appraisals required pursuant to the definition of Fair Market Value shall be deemed sufficient for such purposes to the maximum extent permitted by law. Notwithstanding anything to the contrary herein, HGI and the Guarantors will not be required to comply with all or any portion of Section 314(d) of the Trust Indenture Act if they determine, in good faith based on advice of outside counsel, that under the terms of that section and/or any interpretation or guidance as to the meaning thereof of the SEC and its staff, including no action letters or exemptive orders, all or any portion of Section 314(d) of the Trust Indenture Act is inapplicable to the released Collateral. Without limiting the generality of the foregoing, certain no-action letters issued by the SEC have permitted an indenture qualified under the Trust Indenture Act to contain provisions permitting the release of collateral from Liens under such indenture in the ordinary course of an issuer s business without requiring the issuer to provide certificates and other documents under Section 314(d) of the Trust Indenture Act. In addition, under interpretations provided by the SEC, to the extent that a release of a Lien is made without the need for consent by the noteholders or the trustee, the provisions of Section 314(d) may be inapplicable to the release. The indenture will contain such provisions.

No Impairment of the Security Interests

Neither HGI nor any of the Guarantors will be permitted to take any action, or knowingly omit to take any action, which action or omission could reasonably be expected to have the result of materially impairing the perfection or priority of the security interest with respect to the Collateral for the benefit of the trustee and the noteholders.

The indenture provides that any release of Collateral in accordance with the provisions of the indenture and the Security Documents will not be deemed to impair the security under the indenture, and that any engineer, appraiser or other expert may rely on such provision in delivering a certificate requesting release so long as all other provisions of the indenture with respect to such release have been complied with.

Certain Limitations on the Collateral

The value of the Collateral in the event of liquidation will depend on many factors. In particular, the Equity Interests that are pledged represent an equity interest in the pledged Subsidiaries, and only have value to the extent that the assets of such Subsidiaries are worth in excess of the liabilities of such Subsidiaries (and, in a bankruptcy or liquidation, will only receive value after payment upon all such liabilities, including all Debt of such Subsidiaries). Consequently, liquidating the Collateral may not produce proceeds in an amount sufficient to pay any amounts due on the notes. See Risk Factors Risks Related to the Notes The value of the collateral may not be sufficient to repay the notes in full . In addition, enforcement of the Liens on the Collateral may be limited by applicable governmental requirements. The fair market value of the Collateral is subject to fluctuations based on factors that include, among others, prevailing interest rates, the ability to sell the Collateral in an orderly sale, general economic conditions, the availability of buyers and similar factors. The amount to be received upon a sale of the Collateral would be dependent on numerous factors, including the actual fair market value of the Collateral at such time and the timing and the manner of the sale. By its nature, some of the Collateral may be illiquid and may have no readily ascertainable market value. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, we cannot assure you that the proceeds from any sale or liquidation of the Collateral will be sufficient to pay HGI s Obligations under the notes. Any claim for the difference between the amount, if any, realized by holders of the notes from the sale of Collateral securing the notes and the Obligations under the notes will rank equally in right of payment with all of HGI s other unsecured senior debt and other unsubordinated obligations, including trade payables. To the extent that third parties establish Liens on the Collateral such third parties could have rights and remedies with respect to the assets subject to such Liens that, if exercised, could adversely affect the value of the Collateral or the ability of the Collateral Agent or the holders of the notes to realize or foreclose on the Collateral. HGI may also issue additional notes as described above or otherwise Incur Obligations which would be secured by the Collateral, the effect of which would be to increase the amount of Debt secured equally and ratably by the Collateral. The ability of the holders to realize on the Collateral may also be subject to certain bankruptcy law limitations in the event of a bankruptcy. See Certain bankruptcy limitations.

Certain Bankruptcy Limitations

In addition to the limitations described above, the right of the Collateral Agent to obtain possession, exercise control over or dispose of the Collateral during the existence of an Event of Default is likely to be significantly impaired by applicable bankruptcy law if HGI were to have become a debtor under the U.S. Bankruptcy Code prior to the Collateral Agent having exercised control over or disposed of the Collateral. Under the U.S. Bankruptcy Code, a secured creditor is prohibited by the automatic stay from exercising control over or disposing of collateral taken from a debtor in a bankruptcy case, without bankruptcy court approval. Moreover, the U.S. Bankruptcy Code permits the debtor in certain circumstances to continue to retain and to use collateral owned as of the date of the bankruptcy filing (and the proceeds, products, offspring, rents or profits of such collateral) even though the debtor is in default under the applicable debt instruments, *provided that* the secured creditor is given adequate protection. The term adequate protection is not defined in the U.S. Bankruptcy Code, but it includes making periodic cash payments, providing an additional or replacement Lien or granting other relief, in each case to the extent that the collateral decreases in value during the pendency of the bankruptcy case as a result of, among other things, the imposition of the automatic stay, the use, sale or lease of such collateral or any grant of a priming lien in connection with debtor-in-possession financing. The type of adequate protection provided to a secured creditor may vary according to circumstances. In view of the lack of a precise definition of the term adequate protection and the broad discretionary powers of a bankruptcy court, it is impossible to predict whether or when the Collateral Agent could repossess or dispose of the Collateral, or whether or to what extent holders would be compensated for any delay in payment or decrease in value of the Collateral through the requirement of adequate protection.

Furthermore, in the event a bankruptcy court determines the value of the Collateral (after giving effect to any prior or pari passu Liens) is not sufficient to repay all amounts due on the notes, the holders of the notes would hold secured claims to the extent of the value of the Collateral and would hold unsecured claims with respect to any shortfall. Under the U.S. Bankruptcy Code, a secured creditor s claim includes interest and any reasonable fees, costs or charges provided for under the agreement under which such claim arose if the claims are oversecured. In addition, if HGI were to become the subject of a bankruptcy case, the bankruptcy court, among other things, may void certain prepetition transfers made by the entity that is the subject of the bankruptcy filing, including, without limitation, transfers held to be preferences or fraudulent conveyances.

Registration Rights; Additional Interest

HGI and the initial purchaser have entered into a registration rights agreement on or prior to the Issue Date. In the registration rights agreement, HGI has agreed to file an exchange offer registration statement with the SEC within 120 days of the Issue Date, and use its commercially reasonable efforts to have it declared effective no later than 240 days after the Issue Date. HGI has also agreed to use its commercially reasonable efforts to cause the exchange offer registration statement to be effective continuously in order to keep the exchange offer open for a period of not less than 30 days and cause the exchange offer to be consummated no later than the 40th day after the exchange offer registration statement is declared effective by the SEC (the *consummation deadline*).

Pursuant to the exchange offer, certain holders of notes that constitute Transfer Restricted Securities (as defined below) may exchange their Transfer Restricted Securities for registered notes (*Exchange Notes*). To participate in the exchange offer, each holder must represent that it is not an affiliate of HGI or a broker-dealer tendering notes acquired directly from HGI for its own account, it is not engaged in, and does not intend to engage in, and has no arrangement or understanding with any person to participate in, a distribution of the notes that are issued in the exchange offer, and that it is acquiring the notes in the exchange offer in its ordinary course of business.

If the holder is a broker-dealer that will receive Exchange Notes for its own account in exchange for outstanding notes that were acquired as a result of market making activities or other trading activities, it will be required to acknowledge that it will deliver a prospectus in connection with any resale of such Exchange Notes.

If:

- because of any change in applicable law or in interpretations thereof by the SEC staff, HGI is not permitted to effect the exchange offer;

- the exchange offer is not consummated by the 310th day after the Issue Date;

- any initial purchaser so requests with respect to notes held by it that are not eligible to be exchanged for Exchange Notes in the exchange offer; or

- any other holder is prohibited by law or SEC policy from participating in the exchange offer or any holder (other than an exchanging broker-dealer) that participates in the exchange offer does not receive freely tradeable Exchange Notes on the date of the exchange and, in each case, such holder so requests,

HGI will be required to file with the SEC a shelf registration statement to register for public resale the Transfer Restricted Securities held by any such holder within 60 days after such triggering event and use its commercially reasonable efforts to have it declared effective no later than 150 days after the trigger date; *provided* that in no event shall HGI be required to file the shelf registration statement or have such registration statement declared effective prior to the applicable deadlines for the exchange offer registration statement. HGI will be required to use its commercially reasonable efforts to keep the shelf registration statement effective until the earlier of (i) the date on which all notes registered thereunder are disposed of in accordance therewith and (ii) the time when the notes covered by the shelf registration statement are no longer restricted securities (as defined in Rule 144 under the Securities Act) or may be sold pursuant to Rule 144 without limitation. A holder who sells notes pursuant to the shelf registration statement generally will be required to be named as a selling securityholder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will be required to agree in writing to be bound by the provisions of the registration rights agreement which are applicable to such a holder (including certain indemnification obligations). In addition, each holder of the notes will be required to deliver information to be used in connection with the shelf registration statement in order to have its notes included in the shelf registration statement.

For the purposes of the registration rights agreement, *Transfer Restricted Securities* means each note until:

(1) the date on which such note is exchanged in the exchange offer by a person other than a broker-dealer for a freely transferable Exchange Note;

(2) following the exchange by a broker-dealer in the exchange offer of a note for an Exchange Note, the date on which such Exchange Note is sold to a purchaser who receives from the broker-dealer on or prior to the date of such sale a copy of the prospectus contained in the exchange offer registration statement; or

(3) the date on which such note has been effectively registered under the Securities Act and disposed of in accordance with the shelf registration statement.

The registration rights agreement will provide that if:

(i) HGI fails to file any registration statement required by the agreement on or prior to the applicable deadline;

(ii) any registration statement is not declared effective on or prior to the applicable effectiveness deadline;

(iii) the exchange offer is not consummated on or prior to the consummation deadline; or

(iv) any registration statement has been declared effective but thereafter ceases to be effective or useable in connection with resales of the Transfer Restricted Securities during the periods specified in the registration rights agreement, (each, a *Registration Default*),

HGI agrees to pay to each holder of Transfer Restricted Securities affected thereby additional interest over and above the interest otherwise payable on the notes from and including the date on which any Registration Default shall occur to but excluding the date on which all such Registration Defaults have been cured, at a rate of 0.25% per annum for the first 90-day period immediately following the occurrence of a Registration Default, to be increased by an additional 0.25% per annum with respect to each subsequent 90-day period until all Registration Defaults have been cured, up to a maximum additional interest rate of 0.50% per annum. HGI will not be required to pay additional interest for more than one Registration Default at any given time. All accrued additional interest shall be paid by HGI in the same manner and at the same time as payments of interest. HGI shall calculate additional interest.

All of the notes offered hereby and the Exchange Notes will be treated as a single class and will vote together under the indenture.

Under certain circumstances described in the registration rights agreement, HGI may delay the filing of or suspend the effectiveness of or the holders ability to use the shelf registration statement, and such delay or suspension will not be deemed to be a Registration Default or cause additional interest to be payable.

All references in the indenture, in any context, to any interest or other amount payable on or with respect to the notes shall be deemed to include any additional interest pursuant to the registration rights agreement.

This is a summary of the material provisions of the registration rights agreement. Because this is a summary, it may not contain all the information that is important to you. You should read the registration rights agreement in its entirety. Copies of the proposed form of registration rights agreement are available as described under Where You Can Find More Information.

Optional Redemption

Except as set forth in this section, the notes are not redeemable at the option of HGI.

At any time and from time to time prior to May 15, 2013, HGI may redeem the notes at its option, in whole or in part, at a redemption price equal to 100% of the principal amount of notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to, the applicable redemption date.

Applicable Premium means, with respect to any note on any redemption date, the greater of

(i) 1.0% of the principal amount of such note; or

(ii) the excess of:

(a) the present value at such redemption date of (i) the redemption price of such note at May 15, 2013 (such redemption price being set forth in the table appearing below), plus (ii) all required interest payments due on such note through May 15, 2013 excluding accrued but unpaid interest to the applicable redemption date, computed using a discount rate equal to the Treasury Rate as of such redemption date plus 50 basis points; over

(b) the principal amount of the note.

Treasury Rate means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15(519) that has become publicly available at least two business days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to May 15, 2013; *provided, however*, that if the period from the redemption date to May 15, 2013, is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

At any time and from time to time on or after May 15, 2013, HGI may redeem the notes, in whole or in part, at a redemption price equal to the percentage of principal amount set forth below plus accrued and unpaid interest to the redemption date.

Date	Price
May 15, 2013	105.313%
November 15, 2013	102.656%
November 15, 2014 and thereafter	100.000%

At any time and from time to time prior to November 15, 2013, HGI may redeem notes with the net cash proceeds received by HGI from any Equity Offering at a redemption price equal to 110.625% of the principal amount plus accrued and unpaid interest to the redemption date, in an aggregate principal amount for all such redemptions not to exceed 35% of the original aggregate principal amount of the notes issued under the indenture (including additional notes), *provided that*

(1) in each case the redemption takes place not later than 90 days after the closing of the related Equity Offering, and

(2) not less than 65% of the aggregate principal amount of the notes issued under the indenture remains outstanding immediately thereafter.

Selection and Notice

If fewer than all of the notes are being redeemed, the trustee will select the notes to be redeemed pro rata, by lot or by any other method the trustee in its sole discretion deems fair and appropriate, in denominations of $2,000 principal amount and higher integral multiples of $1,000. Upon surrender of any note redeemed in part, the holder will receive a new note equal in principal amount to the unredeemed portion of the surrendered note. Once notice of redemption is sent to the holders, notes called for redemption become due and payable at the redemption price on the redemption date, and, commencing on the redemption date, notes redeemed will cease to accrue interest.

No Sinking Fund

There will be no sinking fund payments for the notes.

Certain Covenants

The indenture contains covenants including, among others, the following:

Maintenance of Liquidity

From the Issue Date and until the second semi-annual interest payment on the notes is made, HGI and the Guarantors shall maintain an amount in Cash Equivalents that is subject to no Liens (other than Liens under the Security Documents) in an amount equal to HGI s obligations to pay interest on the notes and all other Debt of HGI and the Guarantors for the next twelve months. Thereafter, HGI and the Guarantors shall maintain an amount in Cash Equivalents that is subject to no Liens (other than Liens under the Security Documents) in an amount equal to HGI s obligations to pay interest on the notes and all other Debt of HGI and the Guarantors for the next six months. In the case any such Debt bears interest at a floating rate, HGI may assume that the reference interest rate in effect on the applicable date of determination will be in effect for the remainder of such period.

Maintenance of Collateral Coverage

(a) As of (i) the last day of each fiscal year and (ii) the last day of the second fiscal quarter of HGI, HGI shall not permit the Collateral Coverage Ratio to be less than 2.0 to 1.0; *provided* that, beginning at the time that the outstanding principal amount of Pari-Passu Obligations (including the principal amount of the notes) equals or exceeds $400.0 million and for so long as such amount equals or exceeds $400.0 million, HGI shall not permit the Collateral Coverage Ratio to be less than 2.5 to 1 as of such dates.

(b) As of the last day of each fiscal quarter of HGI, HGI shall not permit the Liquid Collateral Coverage Ratio to be less than 1.25 to 1.0.

(c) From and after the date, if any, that HGI or any Guarantor makes any Investment in LightSquared pursuant to clause (e)(A)(ii) under Limitation on Restricted Payments and so long as such Investment is still outstanding, HGI and the Guarantors shall not permit the Cash Collateral Coverage Ratio to be less than 2.0 to 1.0 at any time.

Limitation on Debt and Disqualified Stock

(a) Neither HGI nor any Guarantor will Incur any Debt.

(b) Notwithstanding the foregoing, HGI and, to the extent provided below, any Guarantor may Incur the following (*Permitted Debt*):

(1) [Reserved];

(2) Debt of HGI or any Guarantor owed to HGI or any Guarantor so long as such Debt continues to be owed to HGI or any Guarantor;

(3) Subordinated Debt of HGI or any Guarantor; *provided* that (a) such Debt has a Stated Maturity after the Stated Maturity of the notes and (b) on the date of the Incurrence, after giving effect to the Incurrence and the receipt and application of the proceeds therefrom, the Collateral Coverage Ratio is not less than 2.0 to 1.0, calculated as if all Debt of HGI and the Guarantors outstanding at such time was included in clause (ii) of the definition of Collateral Coverage Ratio ;

(4) Debt of HGI pursuant to the notes (other than additional notes) and Debt of any Guarantor pursuant to a Note Guaranty of the notes (including additional notes);

(5) Debt (*Permitted Refinancing Debt*) constituting an extension or renewal of, replacement of, or substitution for, or issued in exchange for, or the net proceeds of which are used to repay, redeem, repurchase, refinance or refund, including by way of defeasance (all of the foregoing, for purposes of this clause, refinance) then outstanding Debt in an amount not to exceed the principal amount of the Debt so refinanced, plus premiums, fees and expenses; *provided* that

(A) in case the Debt to be refinanced is Subordinated Debt, the new Debt, by its terms or by the terms of any agreement or instrument pursuant to which it is outstanding, is expressly made subordinate in right of payment to the notes at least to the extent that the Debt to be refinanced is subordinated to the notes,

(B) the new Debt does not have a Stated Maturity prior to the Stated Maturity of the Debt to be refinanced, and the Average Life of the new Debt is at least equal to the remaining Average Life of the Debt to be refinanced, and

(C) Debt Incurred pursuant to clauses (2), (3), (6), (7), (9), (10), (11), (12) and (13) may not be refinanced pursuant to this clause;

(6) Hedging Agreements of HGI or any Guarantor entered into in the ordinary course of business for the purpose of managing risks associated with the business of HGI or its Subsidiaries and not for speculation;

(7) Debt of HGI or any Guarantor with respect to (A) letters of credit and bankers acceptances issued in the ordinary course of business and not supporting other Debt, including letters of credit supporting performance, surety or appeal bonds, workers compensation claims, health, disability or other benefits to employees or former employees or their families or property, casualty or liability insurance or self-insurance, and letters of credit in connection with the maintenance of, or pursuant to the requirements of, environmental or other permits or licenses from governmental authorities, or other Debt with respect to reimbursement type obligations regarding workers compensation claims and (B) indemnification, adjustment of purchase price, earn-out or similar obligations incurred in connection with the acquisition or disposition of any business or assets;

(8) Debt of HGI outstanding on the Issue Date (and, for purposes of clause (5)(C), not otherwise constituting Permitted Debt);

(9) Debt of HGI or any Guarantor consisting of Guarantees of Debt of HGI or any Guarantor Incurred under any other clause of this covenant;

(10) Debt of HGI or any Guarantor Incurred on or after the Issue Date not otherwise permitted in an aggregate principal amount at any time outstanding not to exceed $10.0 million;

(11) Debt arising from endorsing instruments of deposit and from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds, in each case, in the ordinary course of business; *provided* that such Debt is extinguished within five business days of Incurrence;

(12) Debt of HGI or any Guarantor consisting of the financing of insurance premiums;

(13) Contribution Debt; and

(14) Debt, which may include Capital Leases, Incurred on or after the Issue Date no later than 180 days after the date of purchase, or completion of construction or improvement of property, for the purpose of financing all or any part of the purchase price or cost of construction or improvement; *provided* that the principal amount of any Debt Incurred pursuant to this clause may not exceed (a) $1 million less (b) the aggregate outstanding amount of Permitted Refinancing Debt Incurred to refinance Debt Incurred pursuant to this clause.

(c) Notwithstanding any other provision of this covenant, for purposes of determining compliance with this covenant, increases in Debt solely due to fluctuations in the exchange rates of currencies will not be deemed to exceed the maximum amount that HGI or a Guarantor may Incur under this covenant. For purposes of determining compliance with any U.S. dollar-denominated restriction on the Incurrence of Debt, the U.S. dollar-equivalent principal amount of Debt denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Debt was Incurred; *provided* that if such Debt is Incurred to refinance other Debt denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Debt does not exceed the principal amount of such Debt being refinanced. The principal amount of any Debt Incurred to refinance other Debt, if Incurred in a different currency from the Debt being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such respective Debt is denominated that is in effect on the date of such refinancing.

(d) In the event that an item of Debt meets the criteria of more than one of the types of Debt described in this covenant, HGI, in its sole discretion, will classify items of Debt and will only be required to include the amount and type of such Debt in one of such clauses and HGI will be entitled to divide and classify an item of Debt in more than one of the types of Debt described in this covenant, and may, at any time after such Incurrence (based on circumstances existing at such time), change the classification of an item of Debt (or any portion thereof) to any other type of Debt described in this covenant at any time. If any Contribution Debt is redesignated as Incurred under any provision other than clause (13) of paragraph (b), the related issuance of Equity Interests may be included in any calculation under paragraph (a)(3)(B) of Limitation on Restricted Payments.

(e) Neither HGI nor any Guarantor may Incur any Debt that is subordinated in right of payment to other Debt of HGI or the Guarantor unless such Debt is also subordinated in right of payment to the notes or the relevant Note Guaranty on substantially identical terms. This does not apply to distinctions between categories of Debt that exist by reason of any Liens or Guarantees securing or in favor of some but not all of such Debt.

Limitation on Restricted Payments

(a) HGI will not, and, to the extent within HGI s control, will not permit any of its Subsidiaries (including any Guarantor) to, directly or indirectly (the payments and other actions described in the following clauses being collectively *Restricted Payments*):

declare or pay any dividend or make any distribution on its Equity Interests (other than dividends or distributions paid in HGI s Qualified Equity Interests) held by Persons other than HGI or any of its Subsidiaries;

purchase, redeem or otherwise acquire or retire for value any Equity Interests of HGI or any direct or indirect parent of HGI held by Persons other than HGI or any of its Subsidiaries;

repay, redeem, repurchase, defease or otherwise acquire or retire for value, or make any payment on or with respect to, any Subordinated Debt of HGI or any Guarantor except a payment of interest or principal at Stated Maturity; or

make any Investment in any direct or indirect parent of HGI;

unless, at the time of, and after giving effect to, the proposed Restricted Payment:

(1) no Default has occurred and is continuing,

(2) the Company s Collateral Coverage Reserve would be not less than the ratio specified under Maintenance of Collateral Coverage that is then applicable, and

(3) the aggregate amount expended for all Restricted Payments made on or after the Issue Date would not, subject to paragraph (c), exceed the sum of

(A) 50% of the aggregate amount of the Consolidated Net Income (or, if the Consolidated Net Income is a loss, minus 100% of the amount of the loss) accrued on a cumulative basis during the period, taken as one accounting period, beginning with the first fiscal quarter commencing after the Issue Date and ending on the last day of HGI s most recently completed fiscal quarter for which internal financial statements are available, plus

(B) subject to paragraph (c), the aggregate net cash proceeds and the fair market value of marketable securities or other property received by HGI (other than from a Subsidiary) after the Issue Date

(i) from the issuance and sale of its Qualified Equity Interests, including by way of issuance of its Disqualified Equity Interests or Debt to the extent since converted into Qualified Equity Interests of HGI, or

(ii) as a contribution to its common equity (but excluding any equity contribution consisting of Equity Interests of Spectrum or related assets contributed in connection with the satisfaction of the conditions for the release of proceeds from the initial sale of the notes on the Issue Date).

The amount expended in any Restricted Payment, if other than in cash, will be deemed to be the fair market value of the relevant non-cash assets, as determined in good faith by the Board of Directors, whose determination will be conclusive and evidenced by a resolution of the Board of Directors.

(b) The foregoing will not prohibit:

(1) the payment of any dividend within 60 days after the date of declaration thereof if, at the date of declaration, such payment would comply with paragraph (a);

(2) dividends or distributions by a Subsidiary payable, on a pro rata basis or on a basis more favorable to HGI, to all holders of any class of Capital Stock of such Subsidiary a majority of the voting power of which is held, directly or indirectly through Subsidiaries, by HGI;

(3) the repayment, redemption, repurchase, defeasance or other acquisition or retirement for value of Subordinated Debt with the proceeds of, or in exchange for, Permitted Refinancing Debt;

(4) the purchase, redemption or other acquisition or retirement for value of Equity Interests of HGI or any direct or indirect parent in exchange for, or out of the proceeds of (i) an offering (occurring within 60 days of such purchase, redemption or other acquisition or retirement for value) of, Qualified Equity Interests of HGI or (ii) a contribution to the common equity capital of HGI;

(5) the repayment, redemption, repurchase, defeasance or other acquisition or retirement of Subordinated Debt of HGI in exchange for, or out of the proceeds of, (i) an offering (occurring within 60 days of such purchase, redemption or other acquisition or retirement for value) of Qualified Equity Interests of HGI or (ii) a contribution to the common equity capital of the Issuer;

(6) the purchase, redemption or other acquisition or retirement for value of Equity Interests of HGI held by officers, directors or employees or former officers, directors or employees (or their estates or beneficiaries under their estates), upon death, disability, retirement, severance or termination of employment or pursuant to any agreement under which the Equity Interests were issued; *provided* that the aggregate cash consideration paid therefor in any twelve-month period after the Issue Date does not exceed an aggregate amount of $5.0 million;

(7) the repurchase of any Subordinated Debt at a purchase price not greater than (x) 101% of the principal amount thereof in the event of a change of control pursuant to a provision no more favorable to the holders thereof than Repurchase of Notes Upon a Change of Control or (y) 100% of the principal amount thereof in the event of an Asset Sale pursuant to a provision no more favorable to the holders thereof than Limitation on Asset Sales , *provided* that, in each case, prior to the repurchase HGI has made an Offer to Purchase and repurchased all notes issued under the indenture that were validly tendered for payment in connection with the offer to purchase;

(8) Restricted Payments not otherwise permitted hereby in an aggregate amount not to exceed $10.0 million;

(9) (a) repurchases of Equity Interests deemed to occur upon the exercise of stock options or warrants if the Equity Interests represent all or a portion of the exercise price thereof (or related withholding taxes) and (b) Restricted Payments by HGI to allow the payment of cash in lieu of the issuance of fractional shares upon the exercise of options or warrants or upon the conversion or exchange of Equity Interests of HGI in an aggregate amount under this clause (b) not to exceed $1.0 million;

(10) payment of dividends or distributions on Disqualified Equity Interests of HGI or any Guarantor and payment of any redemption price or liquidation value of any Disqualified Equity Interest when due in accordance with its terms, in each case, to the extent that such Disqualified Equity Interest was permitted to be Incurred in accordance with the provisions of the indenture;

(11) in the case of any Subsidiary of HGI that, in the ordinary course of its business, makes Investments in private collective investment vehicles (including private collective investment vehicles other than those owned by Permitted Holders), Investments by such Subsidiary in private collective investment vehicles owned or managed by Permitted Holders;

(12) Payments by HGI used to fund costs, expenses and fees related to (i) the Spectrum Brands Acquisition as disclosed in the offering circular or (ii) future acquisitions if such costs, expenses and fees are reasonable and customary (as determined in good faith by HGI); and

(13) the payment of dividends on Qualified Equity Interests of up to 8.0% per annum of the greater of the gross proceeds received by HGI from any offering or sale of such Qualified Equity Interests after the Issue Date or the accreted value of such Equity Interests (*provided* that the aggregate amount of

dividends paid on such Qualified Equity Interests shall not exceed the proceeds therefrom received by HGI after the Issue Date);

provided that, in the case of clauses (6), (7), (10) and (13), no Default has occurred and is continuing or would occur as a result thereof.

(c) Proceeds of the issuance of Qualified Equity Interests will be included under clause (3) of paragraph (a) only to the extent they are not applied as described in clause (4) or (5) of paragraph (b). Restricted Payments permitted pursuant to clauses (2) through (9), (11) and (12) will not be included in making the calculations under clause (3) of paragraph (a).

(d) For purposes of determining compliance with this covenant, in the event that a proposed Restricted Payment (or portion thereof) meets the criteria of more than one of the categories of Restricted Payments described in clauses (1) through (13) above, or is entitled to be incurred pursuant to paragraph (a) of this covenant, HGI will be entitled to classify or re-classify (based on circumstances existing at the time of such re-classification) such Restricted Payment (or portion thereof) in any manner that complies with this covenant and such Restricted Payment will be treated as having been made pursuant to only such clause or clauses or the paragraph (a) of this covenant.

(e) HGI and the Guarantors will not directly or indirectly make any Investment in

(A) LightSquared; *provided* that HGI and any Guarantor may acquire Equity Interests in LightSquared (which Equity Interests in LightSquared shall be pledged as Collateral) (i) solely in exchange for Qualified Equity Interests of HGI or solely as a contribution to the common equity of HGI; or (ii) if, after giving effect to the Investment, the Cash Collateral Coverage Ratio would be at least 2.0 to 1.0; or

(B) any Persons, the Equity Interests of which constitute Excluded Property of a type described in clause (iii) of the definition thereof; *provided* that HGI may make Investments in such Persons in an aggregate amount under this clause (B) not to exceed $15.0 million.

In the case of clause (B), such restriction shall no longer apply (and Investments made in such Person shall no longer count against the amount set forth in the proviso) if the Equity Interests of such Person cease to constitute Excluded Property and are pledged as Collateral.

Limitation on Liens

Neither HGI nor any Guarantor will, create, incur, assume or otherwise cause or suffer to exist or become effective any Lien of any kind (other than Permitted Liens or, in the case of the Collateral, other than Permitted Collateral Liens) upon any of their property or assets, now owned or hereafter acquired.

Limitation on Sale and Leaseback Transactions

Neither HGI nor any Guarantor will enter into any Sale and Leaseback Transaction with respect to any property or asset unless HGI or the Guarantor would be entitled to

(1) Incur Debt in an amount equal to the Attributable Debt with respect to such Sale and Leaseback Transaction pursuant to Limitation on Debt and Disqualified Stock , and

(2) create a Lien on such property or asset securing such Attributable Debt without equally and ratably securing the notes pursuant to Limitation on Liens ,

in which case, the corresponding Debt and Lien will be deemed Incurred pursuant to those provisions.

Limitation on Dividend and Other Payment Restrictions Affecting Subsidiaries

(a) Except as provided in paragraph (b), HGI will not, and, to the extent within HGI s control, will not permit any Subsidiary to, create or otherwise cause or permit to exist or become effective any encumbrance or restriction of any kind on the ability of any Subsidiary to:

(1) pay dividends or make any other distributions on any Equity Interests of the Subsidiary owned by HGI or any other Subsidiary;

(2) pay any Debt or other obligation owed to HGI or any other Subsidiary;

(3) make loans or advances to HGI or any other Subsidiary; or

(4) transfer any of its property or assets to HGI or any other Subsidiary.

(b) The provisions of paragraph (a) do not apply to any encumbrances or restrictions:

(1) existing on the Issue Date in the indenture or any other agreements in effect on the Issue Date, and any extensions, renewals, replacements or refinancings of any of the foregoing; *provided* that the encumbrances and restrictions in the extension, renewal, replacement or refinancing are, taken as a whole, no less favorable in any material respect to the noteholders than the encumbrances or restrictions being extended, renewed, replaced or refinanced;

(2) existing under or by reason of applicable law, rule, regulation or order;

(3) existing with respect to any Person, or to the property or assets of any Person, at the time the Person is acquired by HGI or any Subsidiary, which encumbrances or restrictions (i) are not applicable to any other Person or the property or assets of any other Person (other than Subsidiaries of such Person) and (ii) do not materially adversely affect the ability to make interest, principal and redemption payments on the notes and any extensions, renewals, replacements, or refinancings of any of the foregoing, *provided* the encumbrances and restrictions in the extension, renewal, replacement or refinancing are, taken as a whole, no less favorable in any material respect to the noteholders than the encumbrances or restrictions being extended, renewed, replaced or refinanced;

(4) of the type described in clause (a)(4) arising or agreed to in the ordinary course of business (i) that restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease or license or (ii) by virtue of any Lien on, or agreement to transfer, option or similar right (including any asset sale or stock sale agreement) with respect to any property or assets of, HGI or any Subsidiary;

(5) with respect to a Subsidiary and imposed pursuant to an agreement that has been entered into for the sale or disposition of all or substantially all of the Capital Stock of, or property and assets of, the Subsidiary that is permitted by Limitation on Asset Sales ;

(6) contained in the terms governing any Debt of any Subsidiary if the encumbrances or restrictions are ordinary and customary for a financing of that type;

(7) required pursuant to the indenture;

(8) existing pursuant to customary provisions in partnership agreements, limited liability company organizational governance documents, joint venture and other similar agreements entered into in the ordinary course of business that restrict the transfer of ownership interests in such partnership, limited liability company, joint venture or similar Person;

(9) consisting of restrictions on cash or other deposits or net worth imposed by customers, suppliers or landlords under contracts entered into in the ordinary course of business;

(10) existing pursuant to purchase money and capital lease obligations for property acquired in the ordinary course of business; and

(11) restrictions or conditions contained in any trading, netting, operating, construction, service, supply, purchase or other agreement to which HGI or any of its Subsidiaries is a party entered into in the ordinary course of business; *provided* that such agreement prohibits the encumbrance solely of the property or assets of HGI or such Subsidiary that are the subject of such agreement, the payment rights arising thereunder or the proceeds thereof and does not extend to any other asset or property of HGI or such Subsidiary or the assets or property of any other Subsidiary.

For purposes of determining compliance with this covenant, (i) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock or other Preferred Stock shall not be deemed a restriction on the ability to make distributions on Equity Interests and (ii) the subordination of loans or advances made to HGI or any Subsidiary to other Debt Incurred by HGI or any such Subsidiary shall not be deemed a restriction on the ability to make loans or advances.

Repurchase of Notes upon a Change of Control

If a Change of Control occurs, each holder of notes will have the right to require HGI to repurchase all or any part (equal to $2,000 or a higher multiple of $1,000) of that holder s notes pursuant to a Change of Control Offer on the terms set forth in the indenture. In the Change of Control Offer, HGI will offer a payment (such payment, a *Change of Control Payment*) in cash equal to 101% of the aggregate principal amount of notes repurchased, plus accrued and unpaid interest thereon, to the date of purchase. Within 30 days following any Change of Control, HGI will mail a notice to each holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase notes on the date specified in such notice (the *Change of Control Payment Date*), which date shall be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the indenture and described in such notice. HGI will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the indenture, HGI will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the indenture by virtue of such compliance.

On or before the Change of Control Payment Date, HGI will, to the extent lawful:

(1) accept for payment all notes or portions thereof properly tendered pursuant to the Change of Control Offer;

(2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions thereof properly tendered; and

(3) deliver or cause to be delivered to the trustee the notes so accepted together with an officers certificate stating the aggregate principal amount of notes or portions thereof being purchased by HGI.

The paying agent will promptly mail or wire transfer to each holder of notes properly tendered the Change of Control Payment for such notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new note equal in principal amount to any unpurchased portion of the notes surrendered, if any; *provided* that such new note will be in a principal amount of $2,000 or a higher integral multiple of $1,000.

A Change of Control will generally constitute a change of control under Spectrum s existing debt instruments, and any future credit agreements or other agreements to which HGI or any of its Subsidiaries becomes a party may provide that certain change of control events with respect to HGI would constitute a default under these agreements. HGI s ability to pay cash to the holders following the occurrence of a Change of Control may be limited by HGI s then existing financial resources. Moreover, the exercise by the holders of their right to require HGI to purchase the notes could cause a default under other debt, even if the Change of Control itself does not, due to the financial effect of the purchase on HGI. There can be no assurance that sufficient funds will be available when necessary to make the required purchase of the notes. See Risk Factors Risks Related to the Notes We may be unable to repurchase the notes upon a change of control.

HGI will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer made by HGI and purchases all notes validly tendered and not withdrawn under such Change of Control Offer or (2) notice of redemption has been given with respect to all the notes pursuant to the indenture as described above under the caption Optional Redemption, unless and until there is a default in payment of the applicable redemption price.

A Change of Control Offer may be made in advance of a Change of Control, conditional upon such Change of Control, if a definitive agreement is in place for the Change of Control at the time of making of the Change of Control Offer.

The provisions under the indenture relative to HGI s obligation to make a Change of Control Offer may be waived or modified with the written consent of the holders of a majority in principal amount of the notes.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of the properties or assets of HGI and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of the notes to require HGI to repurchase such notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of HGI and its Subsidiaries taken as a whole to another Person or group may be uncertain.

Limitation on Asset Sales

Neither HGI nor any Guarantor will make any Asset Sale unless the following conditions are met:

(1) The Asset Sale is for fair market value, as determined in good faith by the Board of Directors.

(2) At least 75% of the consideration consists of Cash Equivalents received at closing or Replacement Assets (*provided* such Replacement Assets or Equity Interests of any direct Subsidiary that directly or indirectly owns such Replacement Assets are pledged as Collateral pursuant to the Security Documents). For purposes of this clause (2):

(A) the assumption by the purchaser of Debt or other obligations (other than Subordinated Debt) of HGI or a Guarantor pursuant to a customary novation agreement,

(B) instruments or securities received from the purchaser that are promptly, but in any event within 120 days of the closing, converted by HGI to Cash Equivalents, to the extent of the Cash Equivalents actually so received and

(C) any Designated Non-cash Consideration received by HGI or any Guarantor in such Asset Sale having an aggregate fair market value, taken together with all other Designated Non-cash Consideration received pursuant to this clause (C) that is at that time outstanding, not to exceed $10.0 million at the time of the receipt of such Designated Non-cash Consideration (with the fair market value of each item of Designated Non-cash Consideration being measured at the time received and without giving effect to subsequent changes in value) (provided such assets or Equity Interests of any direct Subsidiary that directly or indirectly owns such assets are pledged as Collateral pursuant to the Security Documents)

shall be considered Cash Equivalents received at closing.

(3) Within 420 days after the receipt of any Net Cash Proceeds from an Asset Sale, the Net Cash Proceeds may be used to (a) acquire all or substantially all of the assets of an operating business, a majority of the Voting Stock of another Person that thereupon becomes a Subsidiary engaged in an operating business or to make other Investments in Persons other than Permitted Holders in the ordinary course of business (collectively, *Replacement Assets*) or (b) to make a capital contribution to a Subsidiary, the proceeds of which are used by such Subsidiary to purchase an operating business, to make capital expenditures or otherwise acquire long-term assets that are to be used in an operating business (which assets or Voting Stock shall be pledged as Collateral) or to make other Investments in Persons other than Permitted Holders in the ordinary course of business.

Following the entering into of a binding agreement with respect to an Asset Sale and prior to the consummation thereof, Cash Equivalents (whether or not actual Net Cash Proceeds of such Asset Sale) used for the purposes described in this clause (3) that are designated as uses in accordance with this clause (3), and not previously or subsequently so designated in respect of any other Asset Sale, shall be deemed to be Net Cash Proceeds applied in accordance with this clause (3).

(4) The Net Cash Proceeds of an Asset Sale not applied pursuant to clause (3) within 420 days of the Asset Sale constitute *Excess Proceeds* . Excess Proceeds of less than $2.0 million will be carried forward and accumulated; *provided* that until the aggregate amount of Excess Proceeds equals or exceeds $20.0 million, all or any portion of such Excess Proceeds may be used or invested in the manner described in clause (3) above and such invested amount shall no longer be considered Excess Proceeds. When accumulated Excess Proceeds equals or exceeds such amount, HGI must, within 30 days, make an Offer to Purchase notes having a principal amount equal to

(A) accumulated Excess Proceeds, multiplied by

(B) a fraction (x) the numerator of which is equal to the outstanding principal amount of the notes and (y) the denominator of which is equal to the outstanding principal amount of the notes and all Pari-Passu Obligations secured by Liens on the Collateral and owed to anyone other than HGI, a Subsidiary or any Permitted Holder similarly required to be repaid, redeemed or tendered for in connection with the Asset Sale,

rounded down to the nearest $1,000. The purchase price for the notes will be 100% of the principal amount plus accrued interest to the date of purchase. If the Offer to Purchase is for less than all of the outstanding notes and notes in an aggregate principal amount in excess of the purchase amount are tendered and not withdrawn pursuant to the offer, HGI will purchase notes having an aggregate principal amount equal to the purchase amount on a pro rata basis, by lot or any other method that the trustee in its sole discretion deems fair and appropriate with adjustments so that only notes in multiples of $1,000 principal amount will be purchased. Upon completion of the Offer to Purchase, Excess Proceeds will be reset at zero, and any Excess Proceeds remaining after consummation of the Offer to Purchase may be used for any purpose not otherwise prohibited by the indenture.

Limitation on Transactions with Affiliates

(a) HGI will not, and, to the extent within HGI s control, will not permit any Subsidiary to, directly or indirectly, enter into, renew or extend any transaction or arrangement including the purchase, sale, lease or exchange of property or assets, or the rendering of any service with any Affiliate of HGI or any Subsidiary (a *Related Party Transaction*), involving payments or consideration in excess of $1.0 million except upon fair and reasonable terms that taken as a whole are no less favorable to HGI or the Subsidiary than could be obtained in a comparable arm s-length transaction with a Person that is not an Affiliate of HGI.

(b) Any Related Party Transaction or series of Related Party Transactions with an aggregate value in excess of $5.0 million must first be approved by a majority of the Board of Directors who are disinterested in the subject matter of the transaction pursuant to a Board Resolution delivered to the trustee. Prior to entering into any Related Party Transaction or series of Related Party Transactions with an aggregate value in excess of $15.0 million, HGI must in addition obtain and deliver to the trustee a favorable written opinion from a nationally recognized investment banking, appraisal, or accounting firm as to the fairness of the transaction to HGI and its Subsidiaries from a financial point of view.

(c) The foregoing paragraphs do not apply to

(1) any transaction between HGI and any of its Subsidiaries or between Subsidiaries of HGI;

(2) the payment of reasonable and customary regular fees and compensation to, and reasonable and customary indemnification arrangements and similar payments on behalf of, directors of HGI who are not employees of HGI;

(3) any Restricted Payments if permitted by Limitation on Restricted Payments ;

(4) transactions or payments, including the award of securities, pursuant to any employee, officer or director compensation or benefit plans or arrangements entered into in the ordinary course of business, or approved by the Board of Directors;

(5) transactions pursuant to any contract or agreement in effect on the Issue Date, as amended, modified or replaced from time to time so long as the terms of the amended, modified or new agreements, taken as a whole, are no less favorable to HGI and its Subsidiaries than those in effect on the date of the indenture;

(6) the entering into of a customary agreement providing registration rights to the direct or indirect stockholders of HGI and the performance of such agreements;

(7) the issuance of Equity Interests (other than Disqualified Equity Interests) of HGI to any Person or any transaction with an Affiliate where the only consideration paid by HGI or any Subsidiary is Equity Interests (other than Disqualified Equity Interests) of HGI or any contribution to the capital of HGI;

(8) the entering into of any tax sharing agreement or arrangement or any other transactions undertaken in good faith for the sole purpose of improving the tax efficiency of HGI and its Subsidiaries;

(9) (A) transactions with customers, clients, suppliers or purchasers or sellers of goods or services, or transactions otherwise relating to the purchase or sale of goods or services, in each case in the ordinary course of business and otherwise in compliance with the terms of the indenture, (B) transactions with joint ventures entered into in ordinary course of business and consistent with past practice or industry norm or (C) any management services or support agreement entered into on terms consistent with past practice and approved by a majority of HGI s Board of Directors (including a majority of the disinterested directors) in good faith;

(10) transactions permitted by, and complying with, the provisions of, the Consolidation, Merger or Sale of Assets covenant, or any merger, consolidation or reorganization of HGI with an Affiliate, solely for the purposes of reincorporating HGI in a new jurisdiction;

(11) (a) transactions between HGI or any of its Subsidiaries and any Person that is an Affiliate solely because one or more of its directors is also a director of HGI; *provided* that such director abstains from voting as a director of HGI on any matter involving such other Person or (b) transactions entered into with any of HGI s or its Subsidiaries or Affiliates for shared services, facilities and/or employee arrangements entered into on commercially reasonable terms (as determined in good faith by HGI);

(12) Investments permitted pursuant to clause (11) of Covenants Limitation on Restricted Payments on commercially reasonable terms (as determined in good faith by HGI);

(13) payments by HGI or any Subsidiary to any Affiliate for any financial advisory, financing, underwriting or placement services or in respect of other investment banking activities, including in connection with acquisitions or divestitures, which payments are on arms -length terms and are approved by a majority of the members of the Board of Directors (including a majority of the disinterested directors) in good faith;

(14) any transaction pursuant to which any Permitted Holder provides HGI and/or its Subsidiaries, at cost, with services, including services to be purchased from third-party providers, such as legal and accounting, tax, consulting, financial advisory, corporate governance, insurance coverage and other services, which transaction is approved by a majority of the members of the Board of Directors (including a majority of the disinterested directors) in good faith;

(15) the contribution of Equity Interests of Spectrum to HGI or any Subsidiary by a Permitted Holder; and

(16) the entering into of customary investment management contracts between a Permitted Holder and any Subsidiary of HGI that, in the ordinary course of its business, makes Investments in private collective investment vehicles (including private collective investment vehicles other than those owned by Permitted Holders), which investment

management contacts are entered into on commercially reasonable terms and approved by a majority of the members of the Board of Directors (including a majority of the disinterested directors) in good faith.

Financial Reports

(a) Whether or not HGI is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, HGI must provide the trustee and noteholders with, or electronically file with the Commission, within the time periods specified in those sections

(1) all quarterly and annual reports that would be required to be filed with the Commission on Forms 10-Q and 10-K if HGI were required to file such reports, including a Management s Discussion and Analysis of Financial Condition and Results of Operations and, with respect to annual information only, a report thereon by HGI s certified independent accountants, and

(2) all current reports that would be required to be filed with the Commission on Form 8-K if HGI were required to file such reports.

In addition, whether or not required by the Commission, HGI will, if the Commission will accept the filing, file a copy of all of the information and reports referred to in clauses (1) and (2) with the Commission for public availability within the time periods specified in the Commission s rules and regulations. In addition, HGI will make the information and reports available to securities analysts and prospective investors upon request.

For so long as any of the notes remain outstanding and constitute restricted securities under Rule 144, HGI will furnish to the holders of the notes and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Reports to Trustee

HGI will deliver to the trustee:

(1) within 120 days after the end of each fiscal year a certificate stating that HGI has fulfilled its obligations under the indenture or, if there has been a Default, specifying the Default and its nature and status; and

(2) as soon as reasonably possible and in any event within 30 days after HGI becomes aware or should reasonably become aware of the occurrence of a Default, an Officers Certificate setting forth the details of the Default, and the action which HGI proposes to take with respect thereto.

No Investment Company Registration

Neither HGI nor any Guarantor will register, or be required to register, as an investment company as such term is defined in the Investment Company Act of 1940, as amended.

Consolidation, Merger or Sale of Assets

HGI

(a) HGI will not

- consolidate with or merge with or into any Person, or
- sell, convey, transfer or otherwise dispose of all or substantially all of its assets as an entirety or substantially an entirety, in one transaction or a series of related transactions, to any Person or

permit any Person to merge with or into HGI,

unless:

(1) either (x) HGI is the continuing Person or (y) the resulting, surviving or transferee Person is a corporation organized and validly existing under the laws of the United States of America or any jurisdiction thereof and expressly assumes by supplemental indenture all of the obligations of HGI under the indenture and the notes and the registration rights agreement;

(2) immediately after giving effect to the transaction, no Default has occurred and is continuing;

(3) immediately after giving effect to the transaction on a pro forma basis, HGI or the resulting surviving or transferee Person would be in compliance with the covenants set forth under Certain Covenants Maintenance of Liquidity, and Certain Covenants Maintenance of Collateral Coverage (calculated as if the date of the transaction was a date on which such covenant is required to be tested under Maintenance of Collateral Coverage); and

(4) HGI delivers to the trustee an officers certificate and an opinion of counsel, each stating that the consolidation, merger or transfer and the supplemental indenture (if any) comply with the indenture;

provided, that clauses (2) and (3) do not apply (i) to the consolidation or merger of HGI with or into a Wholly Owned Subsidiary or the consolidation or merger of a Wholly Owned Subsidiary with or into HGI or (ii) if, in the good faith determination of the Board of Directors of HGI, whose determination is evidenced by a Resolution of HGI s Board of Directors, the sole purpose of the transaction is to change the jurisdiction of incorporation of HGI.

(b) HGI shall not lease all or substantially all of its assets, whether in one transaction or a series of transactions, to one or more other Persons.

(c) The foregoing shall not apply to (i) any transfer of assets by HGI to any Guarantor, (ii) any transfer of assets among Guarantors or (iii) any transfer of assets by a Subsidiary that is not a Guarantor to (x) another Subsidiary that is not a Guarantor or (y) HGI or any Guarantor.

(d) Upon the consummation of any transaction effected in accordance with these provisions, if HGI is not the continuing Person, the resulting, surviving or transferee Person will succeed to, and be substituted for, and may exercise every right and power of, HGI under the indenture and the notes with the same effect as if such successor Person had been named as HGI in the indenture. Upon such substitution, except in the case of a sale, conveyance, transfer or disposition of less than all its assets, HGI will be released from its obligations under the indenture and the notes.

Guarantors

No Guarantor may:

consolidate with or merge with or into any Person, or

sell, convey, transfer or dispose of, all or substantially all its assets as an entirety or substantially as an entirety, in one transaction or a series of related transactions, to any Person, or

permit any Person to merge with or into the Guarantor

unless:

(A) the other Person is HGI or any Subsidiary that is Guarantor or becomes a Guarantor concurrently with the transaction; or

(B) (1) either (x) the Guarantor is the continuing Person or (y) the resulting, surviving or transferee Person expressly assumes by supplemental indenture all of the obligations of the Guarantor under its Note Guaranty; and

(2) immediately after giving effect to the transaction, no Default has occurred and is continuing; or

(C) the transaction constitutes a sale or other disposition (including by way of consolidation or merger) of the Guarantor or the sale or disposition of all or substantially all the assets of the Guarantor (in each case other than to HGI or a Subsidiary) otherwise permitted by the indenture.

Default and Remedies

Events of Default

An *Event of Default* occurs if

(1) HGI defaults in the payment of the principal of any note when the same becomes due and payable at maturity, upon acceleration or redemption, or otherwise (other than pursuant to an Offer to Purchase);

(2) HGI defaults in the payment of interest (including any Additional Interest) on any note when the same becomes due and payable, and the default continues for a period of 30 days;

(3) HGI fails to make an Offer to Purchase and thereafter accept and pay for notes tendered when and as required pursuant to Repurchase of Notes Upon a Change of Control or Certain Covenants Limitation on Asset Sales , or HG or any Guarantor fails to comply with Consolidation, Merger or Sale of Assets ;

(4) HGI defaults in the performance of or breaches the covenants set forth under Certain Covenants Maintenance of Liquidity, or Certain Covenants Maintenance of Collateral Coverage and such default or breach is not cured within (i) 45 days after the date of default under clause (a) of Certain Covenants Maintenance of Collateral Coverage or (ii) 15 days after the date of any default under Certain Covenants Maintenance of Liquidity, or clauses (b) or (c) of Certain Covenants Maintenance of Collateral Coverage (it being understood that the date of default in the case of covenants tested at the end of a fiscal period is the last day of such fiscal period);

(5) HGI defaults in the performance of or breaches any other covenant or agreement of HGI in the indenture or under the notes and the default or breach continues for a period of 60 consecutive days after written notice to HGI by the trustee or to HGI and the trustee by the holders of 25% or more in aggregate principal amount of the notes;

(6) the failure by HGI or any Significant Subsidiary to pay any Debt within any applicable grace period after final maturity or the acceleration of any such Debt by the holders thereof because of a default, in each case, if the total amount of such Debt unpaid or accelerated exceeds $25.0 million;

(7) one or more final judgments or orders for the payment of money are rendered against HGI or any of its Significant Subsidiaries and are not paid or discharged, and there is a period of 60 consecutive days following entry of the final judgment or order that causes the aggregate amount for all such final judgments or orders outstanding and not paid or discharged against all such Persons to exceed $25.0 million (in excess of amounts which HGI s insurance carriers have agreed to pay under applicable policies) during which a stay of enforcement, by reason of a pending appeal or otherwise, is not in effect;

(8) certain bankruptcy defaults occur with respect to HGI or any Significant Subsidiary;

(9) any Note Guaranty of a Significant Subsidiary ceases to be in full force and effect, other than in accordance the terms of the indenture, or a Guarantor that is a Significant Subsidiary denies or disaffirms its obligations under its Note Guaranty; or

(10) (a) the Liens created by the Security Documents shall at any time not constitute a valid and perfected Lien on any portion of the Collateral (with a fair market value in excess of $25.0 million) intended to be covered thereby (to the extent perfection by filing, registration, recordation or possession is required by the indenture or the Security Documents), (b) any of the Security Documents shall for whatever reason be terminated or cease to be in full force and effect (except for expiration in accordance with its terms or amendment, modification, waiver, termination or

release in accordance with the terms of the indenture) or (c) the enforceability of the Liens created by the Security Documents shall be contested by HGI or any Guarantor that is a Significant Subsidiary.

Consequences of an Event of Default

If an Event of Default, other than a bankruptcy default with respect to HGI, occurs and is continuing under the indenture, the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding, by written notice to HGI (and to the trustee if the notice is given by the holders), may, and the trustee at the request of such holders shall, declare the principal of and accrued interest on the notes to be immediately due and payable. Upon a declaration of acceleration, such principal and interest will become immediately due and payable. If a bankruptcy default occurs with respect to HGI, the principal of and accrued interest on the notes then outstanding will become immediately due and payable without any declaration or other act on the part of the trustee or any holder.

The holders of a majority in principal amount of the outstanding notes by written notice to HGI and to the trustee may waive all past defaults and rescind and annul a declaration of acceleration and its consequences if

(1) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the notes that have become due solely by the declaration of acceleration, have been cured or waived, and

(2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

Except as otherwise provided in Consequences of an Event of Default or Amendments and Waiver*s* Amendments with Consent of Holders, the holders of a majority in principal amount of the outstanding notes may, by notice to the trustee, waive an existing Default and its consequences. Upon such waiver, the Default will cease to exist, and any Event of Default arising therefrom will be deemed to have been cured, but no such waiver will extend to any subsequent or other Default or impair any right consequent thereon.

In the event of a declaration of acceleration of the notes because an Event of Default described in clause (6) under Events of Default has occurred and is continuing, the declaration of acceleration of the notes shall be automatically annulled if the event of default or payment default triggering such Event of Default pursuant to clause (6) shall be remedied or cured, or waived by the holders of the Debt, or the Debt that gave rise to such Event of Default shall have been discharged in full, within 30 days after the declaration of acceleration with respect thereto and if (1) the annulment of the acceleration of the notes would not conflict with any judgment or decree of a court of competent jurisdiction and (2) all existing Events of Default, except nonpayment of principal, premium or interest on the notes that became due solely because of the acceleration of the notes, have been cured or waived.

The holders of a majority in principal amount of the outstanding notes may direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee. However, the trustee may refuse to follow any direction that conflicts with law or the indenture, that may involve the trustee in personal liability, or that the trustee determines in good faith may be unduly prejudicial to the rights of holders of notes not joining in the giving of such direction, and may take any other action it deems proper that is not inconsistent with any such direction received from holders of notes.

A holder may not institute any proceeding, judicial or otherwise, with respect to the indenture or the notes, or for the appointment of a receiver or trustee, or for any other remedy under the indenture or the notes, unless:

(1) the holder has previously given to the trustee written notice of a continuing Event of Default;

(2) holders of at least 25% in aggregate principal amount of outstanding notes have made written request to the trustee to institute proceedings in respect of the Event of Default in its own name as trustee under the indenture;

(3) holders have offered to the trustee indemnity reasonably satisfactory to the trustee against any costs, liabilities or expenses to be incurred in compliance with such request;

(4) the trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) during such 60-day period, the holders of a majority in aggregate principal amount of the outstanding notes have not given the trustee a direction that is inconsistent with such written request.

Notwithstanding anything to the contrary, the right of a holder of a note to receive payment of principal of or interest on its note on or after the Stated Maturities thereof, or to bring suit for the enforcement of any such payment on or after such dates, may not be impaired or affected without the consent of that holder.

If any Default occurs and is continuing and is known to the trustee, the trustee will send notice of the Default to each holder within 90 days after it occurs, unless the Default has been cured; *provided* that, except in the case of a default in the payment of the principal of or interest on any note, the trustee may withhold the notice if and so long as the trustee in good faith determines that withholding the notice is in the interest of the holders.

No Liability of Directors, Officers, Employees, Incorporators, Members and Stockholders

No director, officer, employee, incorporator, member or stockholder of HGI or any Guarantor, as such, will have any liability for any obligations of HGI or such Guarantor under the notes, any Note Guaranty or the indenture or for any claim based on, in respect of, or by reason of, such obligations. Each holder of notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. This waiver may not be effective to waive liabilities under the federal securities laws and it is the view of the Commission that such a waiver is against public policy.

Amendments and Waivers

Amendments Without Consent of Holders

HGI and the trustee may amend or supplement the indenture, the notes (and HGI, the trustee or the Collateral Agent may amend or supplement the Security Documents) without notice to or the consent of any noteholder

(1) to cure any ambiguity, defect or inconsistency in the indenture or the notes;

(2) to comply with Consolidation, Merger or Sale of Assets ;

(3) to comply with any requirements of the Commission in connection with the qualification of the indenture under the Trust Indenture Act;

(4) to evidence and provide for the acceptance of an appointment by a successor trustee;

(5) to provide for uncertificated notes in addition to or in place of certificated notes, *provided* that the uncertificated notes are issued in registered form for purposes of Section 163(f) of the Code, or in a manner such that the uncertificated notes are described in Section 163(f)(2)(B) of the Code;

(6) to provide for any Guarantee of the notes, to secure the notes or to confirm and evidence the release, termination or discharge of any Guarantee of or Lien securing the notes when such release, termination or discharge is permitted by

the indenture;

(7) to provide for or confirm the issuance of additional notes;

(8) to make any other change that does not materially and adversely affect the rights of any holder;

(9) to conform any provision to this Description of Notes , as certified by an officers certificate; or

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(10) to evidence the issuance of any Pari-Passu Obligations and secure such obligations with Liens on the Collateral.

Amendments With Consent of Holders.

(a) Except as otherwise provided in Default and Remedies Consequences of a Default or paragraph (b), HGI and the trustee may amend the indenture and the notes with the written consent of the holders of a majority in principal amount of the outstanding notes and the holders of a majority in principal amount of the outstanding notes may waive future compliance by HGI with any provision of the indenture or the notes. In addition, the trustee is authorized to permit the Collateral Agent to amend any Security Document with the written consent of the holders of a majority in principal amount of the outstanding notes.

(b) Notwithstanding the provisions of paragraph (a), without the consent of each holder affected, an amendment or waiver may not

(1) reduce the principal amount of or change the Stated Maturity of any installment of principal of any note,

(2) reduce the rate of or change the Stated Maturity of any interest payment on any note,

(3) reduce the amount payable upon the redemption of any note or change the time of any mandatory redemption or, in respect of an optional redemption, the times at which any note may be redeemed,

(4) after the time an Offer to Purchase is required to have been made, reduce the purchase amount or purchase price, or extend the latest expiration date or purchase date thereunder,

(5) make any note payable in money other than that stated in the note,

(6) impair the right of any holder of notes to receive any principal payment or interest payment on such holder s notes, on or after the Stated Maturity thereof, or to institute suit for the enforcement of any such payment,

(7) make any change in the percentage of the principal amount of the notes required for amendments or waivers,

(8) modify or change any provision of the indenture affecting the ranking of the notes or any Note Guaranty in a manner adverse to the holders of the notes, or

(9) make any change in any Note Guaranty that would adversely affect the noteholders.

In addition, no amendment, supplement or waiver may release all or substantially all of the Collateral without the consent of holders of at least 75% in aggregate principal amount of notes.

It is not necessary for noteholders to approve the particular form of any proposed amendment, supplement or waiver, but is sufficient if their consent approves the substance thereof.

The Indenture will provide that, in determining whether the holders of the required principal amount of notes have concurred in any direction, waiver or consent, notes owned by HGI, any Guarantor or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with HGI or any Guarantor shall be disregarded and deemed not to be outstanding, except that, for the purpose of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only notes which the Trustee knows are so owned shall be so disregarded. Subject to the foregoing, only notes outstanding at the time shall be considered in any such determination. As a result, notes held by the Harbinger Parties will not be able to vote in respect of any direction, waiver or consent so long as the Harbinger Parties control HGI.

Defeasance and Discharge

HGI may discharge its obligations under the notes and the indenture by irrevocably depositing in trust with the trustee money or U.S. Government Obligations sufficient to pay principal of and interest on the notes to maturity or redemption within one year, subject to meeting certain other conditions.

HGI may also elect to

(1) discharge most of its obligations in respect of the notes and the indenture, not including obligations related to the defeasance trust or to the replacement of notes or its obligations to the trustee *(legal defeasance)* or

(2) discharge its obligations under most of the covenants and under clause (3) of Consolidation, Merger or Sale of Assets HGI (and the events listed in clauses (3), (4), (5), (6), (7), (8) (with respect to Significant Subsidiaries only), (9) and (10) under Default and Remedies Events of Default will no longer constitute Events of Default) *(covenant defeasance)*

by irrevocably depositing in trust with the trustee money or U.S. Government Obligations sufficient, in the opinion of an independent firm of certified public accountants, to pay principal of and interest on the notes to maturity or redemption and by meeting certain other conditions, including delivery to the trustee of either a ruling received from the Internal Revenue Service or an opinion of counsel to the effect that the holders will not recognize income, gain or loss for federal income tax purposes as a result of the defeasance and will be subject to federal income tax on the same amount and in the same manner and at the same times as would otherwise have been the case. In the case of legal defeasance, such an opinion could not be given absent a change of law after the date of the indenture.

In the case of either discharge or defeasance, the Note Guaranties, if any, will terminate.

Concerning the Trustee

Wells Fargo Bank, National Association is the trustee under the indenture.

Except during the continuance of an Event of Default, the trustee need perform only those duties that are specifically set forth in the indenture and no others, and no implied covenants or obligations will be read into the indenture against the trustee. In case an Event of Default has occurred and is continuing, the trustee shall exercise those rights and powers vested in it by the indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person s own affairs. No provision of the indenture will require the trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties thereunder, or in the exercise of its rights or powers, unless it receives indemnity satisfactory to it against any loss, liability or expense.

The indenture and provisions of the Trust Indenture Act incorporated by reference therein contain limitations on the rights of the trustee, should it become a creditor of any obligor on the notes, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee is permitted to engage in other transactions with HGI and its Affiliates; *provided* that if it acquires any conflicting interest it must either eliminate the conflict within 90 days, apply to the Commission for permission to continue or resign.

Form, Denomination and Registration of Notes

The notes will be issued in registered form, without interest coupons, in denominations of $2,000 and higher integral multiples of $1,000, in the form of both global notes and certificated notes, as further provided below. Notes sold in reliance upon Regulation S under the Securities Act will be represented by an offshore global note. During the 40-day distribution compliance period as defined in Regulation S (the *Restricted Period*), the offshore global note will be represented exclusively by a temporary offshore global note. After the Restricted Period, beneficial interests in the temporary offshore global note will be exchangeable for beneficial interests in a permanent offshore global note, subject to the certification requirements described under Global Notes. No payments of principal, interest or premium will be paid to holders of a beneficial interest in the temporary offshore global note until exchanged or transferred for an interest in another global note or certificated note. Notes sold in reliance upon Rule 144A under the Securities Act will be represented by the U.S. global note. Notes subsequently resold to institutional accredited investors will be in the form of an IAI global note.

The trustee is not required (i) to issue, register the transfer of or exchange any note for a period of 15 days before the mailing of a notice of redemption of notes to be redeemed or purchased pursuant to an Offer to Purchase, (ii) to register the transfer of or exchange any note so selected for redemption or purchase in whole or in part, except, in the case of a partial redemption or purchase, that portion of the note not being redeemed or purchased, or (iii) if a redemption or a purchase pursuant to an Offer to Purchase is to occur after a regular record date but on or before the corresponding interest payment date, to register the transfer or exchange of any note on or after the regular record date and before the date of redemption or purchase. See Global Notes, Certificated Notes, and Notice to Investors for a description of additional transfer restrictions applicable to the notes.

No service charge will be imposed in connection with any transfer or exchange of any note, but HGI may in general require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith.

Global Notes

Global notes will be deposited with a custodian for DTC, and registered in the name of a nominee of DTC. Beneficial interests in the global notes will be shown on records maintained by DTC and its direct and indirect participants. So long as DTC or its nominee is the registered owner or holder of a global note, DTC or such nominee will be considered the sole owner or holder of the notes represented by such global note for all purposes under the indenture and the notes. No owner of a beneficial interest in a global note will be able to transfer such interest except in accordance with DTC s applicable procedures and the applicable procedures of its direct and indirect participants.

A beneficial interest in the offshore global note may be transferred to a Person who wishes to hold such beneficial interest through the U.S. global note only upon receipt by the trustee of a written certification of the transferee (a *Rule 144A certificate*) to the effect that such transferee is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act in a transaction meeting the requirements of Rule 144A. A beneficial interest in the temporary offshore global note may be transferred to a Person who wishes to hold such beneficial interest in the form of a certificated note only upon receipt by the trustee of (x) a Rule 144A certificate of the transferee or (y) a written certification of the transferee (an *institutional accredited investor certificate*) to the effect that such transferee is an institutional accredited investor within the meaning of Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act, and/or an