HARBINGER GROUP INC.
Form 424B3
May 09, 2011

Table of Contents

Filed Pursuant to Rule 424(b)(3)
Registration Statement No. 333-171924

PROSPECTUS

HARBINGER GROUP INC.
Exchange Offer for $350,000,000
10.625% Senior Secured Notes due 2015

The Notes

We are offering to issue $350,000,000 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 November 15, 2010 and which we refer to as the initial notes. The exchange notes will be issued under the existing indenture, which currently governs the initial notes, dated as of November 15, 2010.

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

The exchange notes will be secured by a first priority lien on substantially all of our assets, including, without limitation, the equity interests of our directly held subsidiaries and related assets, all cash and investment securities owned by us, and all general intangibles owned by us (subject to the exclusions described herein). The exchange 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, 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 June 10, 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to the exchange offer are satisfied, we will exchange all of the initial notes that are validly tendered and not withdrawn for exchange notes.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 that we will issue you in exchange for your initial notes are new securities with no established market for trading.

Before participating in the exchange offer, please refer to the section in this prospectus entitled Risk Factors commencing on page 12.

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 May 9, 2011.

TABLE OF CONTENTS

	Page
Prospectus Summary	1
Risk Factors	12
Special Note Regarding Forward-Looking Statements	44
The Spectrum Brands Acquisition	46
Acquisition of Harbinger F&G, F&G Holdings and FS Holdco	48
Use of Proceeds	49
Capitalization	50
Unaudited Pro Forma Condensed Combined Financial Statements	52
Selected Historical Financial Information	64
Management s Discussion and Analysis of Financial Condition and Results of Operations	66
Business	76
Management	79
Certain Corporate Governance Matters	81
Compensation and Benefits	86
Certain Relationships and Related Party Transactions	91
Principal Stockholders	93
The Exchange Offer	95
Description of Notes	103
U.S. Federal Income Tax Considerations	142
Plan of Distribution	149
Where You Can Find More Information	150
Legal Matters	150
Experts	150
Index to Financial Statements	F-1
Annex A Selected Historical Financial Information of Spectrum Brands Holdings, Inc.	A-1
Annex B Management s Discussion and Analysis of Financial Condition and Results of Operations of Spectrum Brands Holdings, Inc.	B-1
Annex C Description of the Business of Spectrum Brands Holdings, Inc.	C-1
Annex D Certain Relationships and Related Party Transactions of Spectrum Brands Holdings, Inc.	D-1
Annex E Certain Information Regarding Harbinger F&G, LLC	E-1

Table of Contents

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/or pro forma financial statements and the accompanying notes to those statements of Harbinger Group Inc., Spectrum Brands Holdings, Inc. and Fidelity & Guaranty Life Holdings, Inc. (formerly, Old Mutual U.S. 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, HGI, we, us or our refers to Harbinger Group Inc. and, where applicable, its consolidated subsidiaries. Harbinger Capital refers to Harbinger Capital Partners LLC. Harbinger Parties 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. SB/RH Merger means the business combination of Spectrum Brands (as defined below) and Russell Hobbs consummated on June 16, 2010 creating Spectrum Brands Holdings. Spectrum Brands Holdings refers only to Spectrum Brands Holdings, Inc. and its subsidiaries. Spectrum Brands refers to Spectrum Brands, Inc. and, where applicable, its consolidated subsidiaries. F&G Holdings refers to Fidelity & Guaranty Life Holdings, Inc. (formerly, Old Mutual U.S. Life Holdings, Inc.) and, where applicable, its consolidated subsidiaries.

The term initial notes refers to the 10.625% Senior Secured Notes due 2015 that were issued on November 15, 2010 in a private offering. The term exchange notes refers to the 10.625% Senior Secured Notes due 2015 offered with this prospectus. The term notes refers to the initial notes and the exchange notes, collectively.

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 Spectrum Brands Acquisition (as defined below) and the other adjustments related to Spectrum Brands Holdings referred to in the introduction to the section entitled Unaudited Pro Forma Condensed Combined Financial Statements, (ii) the Fidelity & Guaranty Acquisition (as defined below) and (iii) the issuance of the initial notes and the use of proceeds from such issuance. See The Spectrum Brands Acquisition and Unaudited Pro Forma Condensed Combined Financial Statements included elsewhere in this prospectus and Annex E, Certain Information Regarding Harbinger F&G, LLC.

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. (the Reincorporation Merger). We had approximately $471.1 million in cash, cash equivalents and short-term investments (of which $360.1 million was restricted pending the completion of the Spectrum Brands Acquisition) as of December 31, 2010. 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.

Since the completion of the disposition of our 57% ownership interest in the common stock of Omega Protein Corporation (Omega) in December 2006, we have held substantially all of our assets in cash, cash equivalents and short-term investments. Since then, we have been actively looking for acquisition or investment opportunities with a principal focus on identifying and evaluating potential acquisitions of operating businesses. These efforts accelerated

after the Harbinger Parties acquired approximately 9.9 million shares, or approximately 51.6%, of our common stock in July 2009 (the 2009 Change of Control).

On November 15, 2010, we completed the offering of the initial notes. The initial 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, and are governed by the indenture dated as of November 15, 2010, between HGI and Wells Fargo Bank, National Association, as trustee. The net proceeds of the offering were held in a segregated escrow account until we completed the Spectrum Brands Acquisition described below. We used the net proceeds from the offering of the initial notes, together with other available funds, to pay for the purchase price of the Fidelity & Guaranty Acquisition.

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 $771 million (as of March 31, 2011) and the Harbinger Parties own approximately 93.3% of our outstanding common stock.

On March 7, 2011, HGI 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) HGI 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 issued and outstanding Ordinary Share of FS Holdco Ltd. (FS Holdco). In consideration for the interests in Harbinger F&G and FS Holdco, HGI 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 the direct wholly-owned subsidiary of HGI, 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 could be reduced by up to $50 million post-closing if certain regulatory approval is not received (the Fidelity & Guaranty Acquisition). Fidelity & Guaranty Life Insurance Company (formerly, OM Financial Life Insurance Company, FGL Insurance Company) and Fidelity & Guaranty Life Insurance Company of New York (formerly, OM Financial Life Insurance Company of New York, FGL NY Insurance Company) are F&G Holdings principal insurance companies, and are direct wholly-owned subsidiaries of F&G Holdings. See Annex E, Certain Information Regarding Harbinger F&G, LLC.

We are focused on obtaining controlling equity stakes in subsidiaries 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 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), 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.

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 household 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 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 numerous other brands including *Spectracide, Cutter, Tetra, Dingo* and *8-in-1*.

Spectrum Brands Holdings sells its products in approximately 120 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors, global online partners, internal e-commerce and original equipment manufacturers. Spectrum Brands Holdings products are sold in more than one million retail locations globally.

Spectrum Brands Holdings common stock trades on the NYSE under the symbol SPB .

Harbinger F&G

Harbinger F&G is the holding company for our recently acquired annuity and life insurance businesses. F&G Holdings, through its insurance subsidiaries, is a provider of annuity and life insurance products in the U.S., with approximately 800,000 policy holders in the U.S. and a distribution network of approximately 300 independent marketing organizations representing approximately 24,000 agents nationwide. At December 31, 2010, F&G Holdings investment portfolio was approximately $16.5 billion. See Annex E, Certain Information Regarding Harbinger F&G, LLC, for further information.

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. We expect to consider possible reinsurance transactions pursuant to which Front Street will reinsure certain policy obligations of FGL Insurance Company, F&G Holdings principal insurance subsidiary. See Annex E, Certain Information Regarding Harbinger F&G, LLC Business of Front Street, for further information.

Table of Contents

Corporate Structure

The following represents our current corporate structure.

Note: Zap.Com Corporation, a 98% owned subsidiary of HGI, and HGI Funding LLC, and other wholly-owned subsidiaries of HGI, each of which has no current operations, are not reflected above.

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.

Table of Contents

Summary of the Exchange Offer

We are offering to issue $350,000,000 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 June 10, 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.

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 November 15, 2010 (the Registration Rights Agreement), by and among HGI and Credit Suisse Securities (USA) LLC and Goldman Sachs & Co., as representatives of the initial purchasers, 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,

Table of Contents

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 310th 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 initial 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,

Table of Contents

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

Table of Contents

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	$350 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 May 15, 2011.
Optional Redemption	On or after May 15, 2013, we may redeem some or all of the exchange 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 exchange notes at a redemption price equal to 100% of the principal amount of the exchange notes plus a make-whole premium.
	Before November 15, 2013, we may redeem up to 35% of the exchange 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 exchange 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 exchange notes. The purchase price will equal 101% of the principal amount of the exchange 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 exchange notes. You should not expect that any subsidiaries will guarantee the exchange notes.
Ranking	The exchange 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;

Table of Contents

	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
	be effectively subordinated to all liabilities of our non-guarantor subsidiaries.
	As of December 31, 2010, on a pro forma as adjusted basis, after giving effect to the Spectrum Brands Acquisition, the Fidelity & Guaranty Acquisition and the offering of the initial notes, we had no debt other than the initial notes. As of December 31, 2010, the total liabilities of our Spectrum Brands subsidiary were approximately $2.7 billion, including trade payables, and the total liabilities of F&G Holdings were approximately $19.3 billion.
Collateral	Our obligations under the exchange 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 directly held subsidiaries and related assets;
	all cash and investment securities owned by us;
	all general intangibles owned by us; and
	any proceeds thereof (collectively, and other than certain excluded assets, 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.
Original Issue Discount	Because the initial notes were issued with original issue discount, the exchange notes should be treated as having been issued with original issue discount for U.S. federal income tax purposes. If the exchange notes are so treated, then a United States Holder (as defined in U.S. Federal Income Tax Considerations) will, in addition to the stated interest on the exchange notes, be required to include such original issue discount in gross income as it accrues, in advance of the receipt of cash. See 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;
- 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 are new securities with no established market for them. We cannot assure you that a market for these exchange 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 (including Annex E, Certain Information Regarding Harbinger F&G, LLC Risk Factors Regarding Harbinger F&G and the other information in Annex E of this prospectus) for a discussion of factors you should carefully consider before deciding to invest in any exchange notes.

RISK FACTORS

Before acquiring the exchange notes, you should carefully consider the risk factors discussed below. Following the risk factors relating to HGI generally, we are including in this prospectus the risk factors that relate to our investment in Spectrum Brands Holdings (including its acquisition of Russell Hobbs, its emergence from bankruptcy, its business and its common stock). Risks related to Harbinger F&G s business are included in Annex E hereto. Any of these risk factors could materially and adversely affect our business, financial condition and results of operations.

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 will be our cash on hand, the equity interests in our operating subsidiaries and other investments. Our principal source of revenue and cash flow will be distributions from our subsidiaries. Thus our ability to service our debt, finance acquisitions and pay dividends to our stockholders in the future will be dependent on the ability of our subsidiaries to generate sufficient net income and cash flows to make upstream cash distributions to us. Our subsidiaries will be separate legal entities, and although they may be wholly-owned or controlled by us, they will have no obligation to make any funds available to us, whether in the form of loans, dividends 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 $750 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, $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 the near future.

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. See Annex E, Certain Information Regarding Harbinger F&G, LLC Dividend Payment Limitations.

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 December 31, 2010, on a pro forma basis, after giving effect to the Spectrum Brands Acquisition and the Fidelity & Guaranty Acquisition, the notes are structurally subordinated to approximately $22.0 billion in total liabilities, which is comprised of, among other things, contractholder funds (approximately $14.9 billion) and future policy benefits (approximately $3.7 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 Stockholder Agreement, dated as of February 9, 2010 (the Spectrum Brands Holdings Stockholder Agreement), by and among the Harbinger Parties and Spectrum Brands Holdings.

As the indirect parent company of FGL Insurance Company and FGL NY Insurance Company, 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 is impaired by applicable insurance laws.

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 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 Company, to secure certain obligations under the F&G Stock Purchase Agreement. 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 Spectrum Brands Holdings or other subsidiaries pledged as collateral could constitute a change of control under the agreements governing our subsidiaries debt.

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 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.

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 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 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.

The notes are a new issue of securities with no established trading market, 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 purchasers have advised us that they intend to make a market in the notes, but the initial purchasers are not obligated to do so.

The initial purchasers may discontinue any market making in the notes at any time, in their 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.

The exchange notes should be treated as issued with original issue discount for U.S. federal income tax purposes.

Because the initial notes were issued with original issue discount, the exchange notes should be treated as issued with original issue discount for U.S. federal income tax purposes. Thus, U.S. Holders (as defined in U.S. Federal Income Tax Considerations) will be required to include such original issue discount in gross income (as ordinary income) for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest, before the receipt of cash payments attributable to this income and regardless of the U.S. Holder s method of tax accounting. 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 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.

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.

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 business combinations, there is no assurance that we will be successful in enhancing our business or our financial condition. Acquisitions 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 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 will likely 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, 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, 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 in which we invest.

Any potential acquisition or investment in a foreign company 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 business combination 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.

Table of Contents

Covenants in the indenture limit, and other future financing agreements may limit, our ability to operate our business.

The indenture contains, 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.

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 December 31, 2010, our total outstanding indebtedness (excluding the indebtedness of our subsidiaries) was $350 million and our subsidiaries had, on a pro forma basis to give effect to the Spectrum Brands Acquisition and Fidelity & Guaranty Acquisition, approximately $1.7 billion of indebtedness. 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.

Table of Contents

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, 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 a business combination 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 common 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;
- 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.

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, Spectrum Brands Holdings and F&G Holdings, and many adjustments and assumptions have been made regarding Spectrum Brands Holdings (giving effect to the SB/RH Merger), F&G Holdings and our company after giving effect to the Spectrum Brands Acquisition and the Fidelity & Guaranty Acquisition. 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, the actual financial condition and results of operations of our company 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 less than 100% of the equity interests of a company, our investment may be illiquid and 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 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 more than 90% of our total voting power and, subject to the provisions of our organizational documents, the Harbinger Parties would be able to effect a short-form merger to acquire 100% of our common stock. Because of this, the Harbinger Parties 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. 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 rules of the NYSE (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, Peter A. Jenson and Francis T. McCarron, our Chairman of the Board, President and Chief Executive Officer, our Chief Operating Officer 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. Jenson is the Chief Operating Officer of Harbinger Capital and of HGI. 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. Jenson 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.

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, Harbinger Capital and its affiliates routinely cooperate with governmental and regulatory examinations, information-gathering requests (including informal requests, subpoenas, and orders seeking documents, testimony, and other information), and investigations and proceedings (both formal and informal). Harbinger Capital and its affiliates are currently cooperating with investigations with respect to particular investments and trading in securities of particular issuers, including investigations by the Department of Justice and the SEC that appear to relate primarily to a loan made by Harbinger Capital Partners Special Situations Fund, L.P., to Philip Falcone in October 2009. Harbinger Capital and/or its affiliates or investment funds are not currently parties to any litigation or formal enforcement proceeding brought by any governmental or regulatory authority.

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. Accordingly, 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 Jenson 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.

Table of Contents

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

Because our investments in U.S. Government instruments continue to generate nominal returns, we are exploring alternatives (which could include the use of leverage) that could generate higher returns while we search for acquisition opportunities. Any such change in our investment portfolio will likely result in a higher risk of loss to us.

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

At the parent company level, 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.

Our principal assets are the common stock of our majority-owned subsidiaries, Spectrum Brands Holdings and F&G Holdings. We have not held, and do not hold, ourself out as an investment company. We have been conducting a good faith search for additional merger or acquisition candidates, and have repeatedly and publicly disclosed our intention to acquire additional businesses. We believe that we are not an investment company under the Investment Company Act of 1940 (the Investment Company Act). 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. Rule 3a-1 of the Investment Company Act provides an exemption from registration as an investment company if a company meets both an asset and an income test and is not otherwise primarily engaged in an investment company business by, among other things, holding itself out to the public as such or by taking controlling interests in companies with a view to realizing profits through subsequent sales of these interests. A company satisfies the asset test of Rule 3a-1 if it has no more than 45% of the value of its total assets (adjusted to exclude U.S. Government securities and cash) in the form of securities other than interests in majority-owned subsidiaries and companies which it primarily and actively controls. A company satisfies the income test of Rule 3a-1 if it has derived no more than 45% of its net income for its last four fiscal quarters combined from securities other than interests in majority owned subsidiaries and primarily controlled companies.

Table of Contents

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 considered 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. For example, in 2005, we were notified by Weatherford International Inc. (Weatherford) of a claim for reimbursement in connection with the investigation and cleanup of purported environmental contamination at two properties formerly owned by one of our non-operating subsidiaries. The claim was made under an indemnification provision given by us to Weatherford in a 1995 asset purchase agreement. There can be no assurance that we will avoid costs and expenses in excess of our reserves in connection with any continuing obligation. If we were to incur any such costs and expenses, our results of operations, financial position and liquidity could be materially adversely affected.

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 and businesses that we may acquire in the future. 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. 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.

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 U.S. 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. 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 business combination. Furthermore, any failure to implement required new or improved controls, or

difficulties encountered in the implementation of adequate controls over our financial processes and reporting in the future, could harm our operating results or cause us to fail to meet our reporting obligations.

Limitations on liability and indemnification matters.

As permitted by the DGCL, 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

Risks Related to the SB/RH Merger

Significant costs have been incurred in connection with the consummation of the SB/RH Merger 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 $23 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. Spectrum Brands Holdings 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 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.

Risks Related to Spectrum Brands Holdings Emergence From Bankruptcy

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 emergence from Chapter 11 of the U.S. Bankruptcy Code on the August 28, 2009 (the Effective Date). However, in light of the proximity of that date to Spectrum Brands Holdings accounting period close immediately following the Effective Date, which was August 30, 2009, Spectrum Brands Holdings elected to adopt a convenience date of August 30, 2009 for recording fresh-start reporting. Spectrum Brands Holdings adopted fresh-start reporting in accordance with the Accounting Standards Codification (ASC) Topic 852: Reorganizations, pursuant to which Spectrum Brands Holdings 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 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 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.

Risks Related to Spectrum Brands Holdings Business

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. 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 Holdings 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 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 December 31, 2010, 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 $1.7 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 indenture governing the Spectrum Brands Senior Subordinated Toggle Notes (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 could constitute a change of control under the agreements governing Spectrum Brands debt, including any foreclosure on or sale of Spectrum Brands Holdings common stock pledged as collateral for the notes. Under the Spectrum Brands Term Loan and the Spectrum Brands ABL Revolving Credit 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 Revolving Credit 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. 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 whether as a result of the SB/RH Merger or otherwise, 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. As a result of the SB/RH Merger, its current and prospective employees could experience uncertainty about their future roles. This uncertainty may adversely affect Spectrum Brands Holdings ability to attract and retain key management, sales, marketing and technical personnel. Any failure to attract and retain key personnel, whether as a result of the SB/RH Merger or otherwise, 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.

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 (Procter & Gamble)), 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 (Central Garden & Pet). 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 49% of Spectrum Brands net sales for the fiscal quarter ended January 2, 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;

- 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 2007 and 2008, 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.

At January 2, 2011, Spectrum Brands Holdings is estimating that at September 30, 2011 it will have U.S. federal and state net operating loss carryforwards of approximately $1,196 million and $1,043 million, respectively. These net operating loss carryforwards expire through years ending in 2032. As of January 2, 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 the limitation in 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 at January 2, 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 24% of its consolidated net sales for the fiscal quarter ended January 2, 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 January 2, 2011, approximately 49% of Spectrum Brands net sales and 47% 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 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 2010 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 14% of the total consolidated revenue in the fiscal quarter ended January 2, 2011. In December 2007, The Black & Decker Corporation (BDC) extended the license agreement through December 2012, with an automatic extension through December 2014 if certain milestones are met regarding sales volume and product return. 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.

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 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, Russell Hobbs, in cooperation with the Consumer Commission, voluntarily recalled approximately 9,800 units of a thermal coffeemaker sold under the Black & Decker brand in August 2009 and approximately 584,000 coffeemakers in June 2009. Any additional repurchases or recalls of Spectrum Brands products could be costly to it and could damage the reputation or the value of its brands. If Spectrum Brands is required to remove, or it voluntarily removes its products from the market, its reputation or brands could be tarnished and it may have large quantities of finished products that could not be sold. Furthermore, failure to timely notify the Consumer Commission of a potential safety hazard can result in significant

fines being assessed against Spectrum Brands. Additionally, laws regulating certain consumer products exist in some states, as well as in

other countries in which Spectrum Brands sells its products, and more restrictive laws and regulations may be adopted in the future.

The 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. Accounting principles generally accepted in the United States of American (GAAP) require 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.

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made in this prospectus 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 Spectrum Brands Holdings. Generally, forward-looking statements include information concerning possible or assumed future actions, events or results of operations of our company. 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 financial reporting with ours, completing future acquisitions and dispositions, litigation, potential and contingent liabilities, management s plans, business portfolios, changes in regulations and taxes.

Forward-looking statements may be preceded by, followed by or include the words may, will, believe, expect, anticipate, intend, plan, estimate, could, might, 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, in addition to those discussed in the section captioned Risk Factors and in Annex E, Certain Information Regarding Harbinger F&G, LLC Risk Factors Regarding Harbinger F&G , could affect the future results of our company, and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements.

HGI

Important factors that could affect our future results, include, without limitation, the following:

- Limitations on our ability to successfully identify additional suitable acquisition and investments opportunities and to compete for these opportunities with others who have greater resources;
- 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;
- 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 on our ability to dispose of equity interests we hold from restrictive stockholder agreements and securities laws;

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 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 from those expressed or implied in the forward-looking statements may be affected by 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;

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.

We also caution the reader that undue reliance should not be placed on any forward-looking statements, which speak only as of the date of this prospectus. 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 prospectus or to reflect actual outcomes.

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 40.6% 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 36% of the outstanding shares of Spectrum Brands Holdings common stock and the Harbinger Parties owned approximately 64% of the outstanding shares of Spectrum Brands Holdings common stock. 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 . Additional information about Russell Hobbs, a subsidiary of Spectrum Brands, can be found in HGI s Definitive Information Statement filed by HGI with the SEC on November 5, 2010.

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 outstanding Spectrum Brands Holdings common stock, 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 own approximately 93.3% of our outstanding shares of common stock and the Harbinger Parties and Harbinger Capital together directly own approximately 12.8% of the outstanding shares of Spectrum Brands Holdings common stock.

Upon the consummation of the Spectrum Brands Acquisition, we became a party to the Spectrum Brands Holdings Registration Rights Agreement. Under the Spectrum Brands Holdings Registration Rights Agreement, we have certain demand and piggy back registration rights with respect to our shares of Spectrum Brands Holdings common stock.

Under the Spectrum Brands Holdings Registration Rights Agreement, we, the Harbinger Parties or the Avenue Parties may demand that Spectrum Brands Holdings register all or a portion of our or their respective

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.

The Spectrum Brands Holdings Registration Rights Agreement also provides that if Spectrum Brands Holdings decides to register shares of its common stock for its own account or the account of a stockholder other than us, the Harbinger Parties and the Avenue Parties (subject to certain exceptions set forth in the agreement), we, the Harbinger Parties or the Avenue Parties may require Spectrum Brands Holdings to include all or a portion of their shares of Spectrum Brands Holdings common stock in the registration and, to the extent the registration is in connection with an underwritten public offering, to have such shares of Spectrum Brands Holdings common stock included in the offering.

Following the consummation of the Spectrum Brands Acquisition, we also became a party to the Spectrum Brands Holdings Stockholder Agreement. 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 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, 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;

before June 16, 2011, we will 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. In addition, under Spectrum Brands Holdings certificate of incorporation, no stockholder that (together with its affiliates) owns 40% or more of the outstanding voting securities of Spectrum Brands Holdings (the 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;

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 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 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, 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.

ACQUISITION OF HARBINGER F&G, F&G HOLDINGS AND FS HOLDCO

See Annex E, Certain Information Regarding Harbinger F&G, LLC, for a description of the acquisitions of Harbinger F&G, F&G Holdings and FS Holdco.

Table of Contents

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.

Table of Contents

CAPITALIZATION

The following table sets forth our unaudited consolidated cash and cash equivalents, short-term investments and consolidated capitalization as of December 31, 2010:

on an actual basis;

on a pro forma basis to give effect to (i) the Spectrum Brands Acquisition and issuance of our common stock to effect the Spectrum Brands Acquisition, (ii) the Fidelity & Guaranty Acquisition and (iii) the issuance of the initial notes and the use of proceeds from such issuance.

You should read this table together with Unaudited Pro Forma Condensed Combined Financial Statements, Use of Proceeds, The Spectrum Brands Acquisition , Acquisition of Harbinger F&G, F&G Holdings and FS Holdco and our historical financial statements and related notes and the financial statements and related notes of each of Spectrum Brands Holdings, Spectrum Brands and F&G Holdings included elsewhere in this prospectus.

	HGI As of December 31, 2010	Pro Forma As of December 31, 2010
	(In millions)	
Cash and cash equivalents	$ 39.3	$ 115.4
Short-term investments	71.7	71.7(5)
Restricted cash	360.1	
Debt:		
HGI Debt:		
Notes	$ 350.0	$ 350.0
Spectrum Brands Debt:		
Spectrum Brands ABL Facility(1)		43.5
Foreign Credit Facilities and Other		37.5
Spectrum Brands Term Loan(2)		680.0
Spectrum Brands Senior Secured Notes(3)		750.0
Spectrum Brands Senior Subordinated Toggle Notes(4)		245.0
Less: Original issuance discounts on debt	(4.9)	(29.1)
Total debt	$ 345.1	$ 2,076.9
Total HGI stockholders equity	$ 124.3	$ 663.1
Total capitalization	$ 469.4	$ 2,740.0

(1) The Spectrum Brands ABL Facility provides for borrowings of up to $300 million from time to time, subject to a borrowing base formula. As of December 31, 2010, $43.5 million aggregate principal amount of borrowings and

$36.5 million of letters of credit were outstanding under the Spectrum Brands ABL Facility and Spectrum Brands had the ability to borrow up to an additional $150 million, subject to satisfaction of customary borrowing conditions. The Spectrum Brands ABL Facility expires in June 2016.

(2) Consists of $680 million aggregate principal amount of borrowings outstanding under the Spectrum Brands Term Loan that had an initial principal balance of $750 million that was borrowed at a discount of approximately $15 million. This discount accretes and is included in interest expense as this facility matures or is prepaid. This term loan was refinanced at par with a new term loan with a lower interest rate and which matures in June 2016.

(3) Consists of $750 million aggregate principal amount of the Spectrum Brands Senior Secured Notes that were issued at a discount of approximately $10 million. This discount accretes and is included in interest expense as the Spectrum Brands Senior Secured Notes mature. The Spectrum Brands Senior Secured Notes mature in June 2018.

(4) As of December 31, 2010, $245 million aggregate principal amount of the Spectrum Brands Senior Subordinated Toggle Notes was outstanding (including notes issued as payment of interest in kind). Spectrum Brands may elect to pay interest under the Spectrum Brands Senior Subordinated Toggle Notes in cash or as a payment in kind through the semi-annual interest period ended February 2011. The Spectrum Brands Senior Subordinated Toggle Notes mature in August 2019.

(5) 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.

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial statements for the year ended December 31, 2010, the date of our latest publicly available financial information, gives effect to (i) the Spectrum Brands Acquisition, including the full-period effect of the SB/RH Merger, (ii) the full period effect of the initial notes offering and (iii) the Fidelity & Guaranty Acquisition.

The unaudited pro forma condensed combined financial statements shown below reflect historical financial information and have been prepared on the basis that, under Accounting Standards Codification Topic 805: Business Combinations (ASC 805), the Spectrum Brands Acquisition is accounted for as a transaction between entities under common control and the Fidelity & Guaranty Acquisition is accounted for under the acquisition method of accounting. In accordance with the guidance in ASC 805, the assets and liabilities transferred between entities under common control should be 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 issued shares of our common stock to effect the Spectrum Brands Acquisition, for accounting purposes Spectrum Brands Holdings will be treated as the predecessor and receiving entity of HGI since Spectrum Brands Holdings was an operating business in prior periods, whereas HGI was not. As Spectrum Brands was determined to be the accounting acquirer in the SB/RH Merger, the financial statements of Spectrum Brands will be presented as our predecessor entity for periods preceding the SB/RH Merger. Accordingly, HGI s assets and liabilities will be recorded at the Harbinger Parties basis as of the date that common control was first established (June 16, 2010). The carrying value of HGI s assets and liabilities approximated the Harbinger Parties basis at that date.

The following unaudited pro forma condensed combined balance sheet at December 31, 2010 is presented on a basis to reflect (i) the Spectrum Brands Acquisition, including the issuance of our common stock to affect the Spectrum Brands Acquisition, and (ii) the Fidelity & Guaranty Acquisition. The unaudited pro forma condensed combined statement of operations for the year ended December 31, 2010 is presented on a basis to reflect (i) the Spectrum Brands Acquisition, including the issuance of our common stock to affect the Spectrum Brands Acquisition and the full-period effect of the SB/RH Merger, (ii) the full-period effect of the initial notes offering and (iii) the Fidelity and Guaranty Acquisition, as if each had occurred on January 1, 2010. 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 year ended December 31, 2010 combines the historical condensed consolidated statement of operations of HGI for the year then ended with the derived historical results of operations of Russell Hobbs for the six months ended March 31, 2010, the last quarter end reported by Russell Hobbs prior to the SB/RH Merger, and the derived historical results of operations of Spectrum Brands Holdings for the twelve-month period ended January 2, 2011 (which include Russell Hobbs results of operations for the most recent six-month period ended January 2, 2011). 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, since comparable results are included in the derived historical results of operations of Russell Hobbs for the six-month period ended March 31, 2010. Pro forma adjustments are made in order to reflect the potential effect of the transactions on the unaudited pro forma condensed combined statement of operations. As a result of the Spectrum Brands Acquisition, the financial statements of Spectrum Brands Holdings, as predecessor, will replace those of HGI for periods prior to the Spectrum Brands Acquisition. Those financial statements will reflect the SB/RH Merger effective June 16, 2010. We do not present any pro forma annual periods prior to January 1, 2010 since those would be the same as Spectrum Brands Holdings historical financial statements as the predecessor to HGI.

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 historical audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2010 included elsewhere in this prospectus;

Spectrum Brands Holdings historical audited consolidated financial statements and notes thereto for the fiscal year ended September 30, 2010 included elsewhere in this prospectus;

Table of Contents

Spectrum Brands Holdings historical unaudited consolidated financial statements and notes thereto for the three-month period ended January 2, 2011 included elsewhere in this prospectus; and

F&G Holding s historical audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2010 included elsewhere in this prospectus.

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 (1) directly attributable to the Spectrum Brands Acquisition, the SB/RH Merger, the initial notes offering and the Fidelity & Guaranty Acquisition, (2) factually supportable, and (3) with respect to the unaudited pro forma condensed combined statement 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 initial notes offering and the Fidelity & Guaranty Acquisition. 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 and Fidelity & Guaranty Acquisitions and other identified events occurred on the date assumed, nor are they necessarily indicative of our future consolidated results of operations or financial position.

Table of Contents

Harbinger Group Inc. and Subsidiaries
Unaudited Pro Forma Condensed Combined Balance Sheet
As of December 31, 2010

	Historical			Pro Forma Adjustments				
	Harbinger Group Inc.	Spectrum Brands Holdings, Inc.	Fidelity & Guaranty Life Holdings, Inc.	Spectrum Brands Acquisition	Note	Fidelity & Guaranty Acquisition	Note	Pro Forma Combine
				(In thousands)				
				ASSETS				
sumer Products and er:								
h and cash ivalents	$ 39,311	$ 83,051	$	$ 360,133	(5i)	$ (367,100)	(10a)	$ 115,3
rt-term investments	71,688							71,6
eivables, net		415,038						415,0
entories, net		512,300						512,3
paid expenses and er current assets	799	85,777						86,5
al current assets	111,798	1,096,166		360,133		(367,100)		1,200,9
tricted cash	360,133			(360,133)	(5i)			
perties, net	137	197,328						197,4
dwill		607,101						607,1
ngible assets, net		1,746,223						1,746,2
erred charges and er assets	11,866	99,556						111,4
	483,934	3,746,374				(367,100)		3,863,2
urance:								
estments:								
ed maturities, ilable-for-sale, at fair ie			15,361,477			573,723	(10b)	15,935,2
ity securities, ilable-for-sale, at fair ie			292,777			8,955	(10b)	301,7
ivative investments			161,468			36,208	(10c)	197,6
er invested assets			90,838					90,8
al investments			15,906,560			618,886		16,525,4
h and cash ivalents			639,247			79,275	(10c,d)	718,5
			202,226			8,853	(10b)	211,0

rued investment ome								
ounts and notes ivable			76,257			(76,257)	(10d)	
erred policy uisition costs			1,695,237			(1,695,237)	(10e,g)	
sent value of in-force			69,631			741,266	(10g)	810,8
nsurance recoverable			1,830,083			(907,831)	(10e)	922,2
erred tax asset, net			151,702			(1,702)	(10h)	150,0
er assets			41,902			15,392	(10 f,i)	57,2
			20,612,845			(1,217,355)		19,395,4
al assets	$ 483,934	$ 3,746,374	$ 20,612,845	$		$ (1,584,455)		$ 23,258,6

LIABILITIES AND EQUITY

sumer Products and er:								
rent portion of g-term debt	$	$ 31,544	$	$		$		$ 31,5
ounts payable	2,728	273,804						276,5
rued and other ent liabilities	7,414	273,232						280,6
al current liabilities	10,142	578,580						588,7
g-term debt	345,146	1,700,168						2,045,3
n-current deferred ome taxes		290,346						290,3
er liabilities	4,320	147,996						152,3
	359,608	2,717,090						3,076,6
urance:								
ure policy benefits			3,473,956			211,909	(10j)	3,685,8
tractholder funds			15,081,681			(142,495)	(10k)	14,939,1
bility for policy and tract claims			63,427					63,4
ounts and notes able			244,584			(244,584)	(10l)	
er liabilities			404,558			(42,546)	(10d,f,l)	362,0
			19,268,206			(217,716)		19,050,4
al liabilities	359,608	2,717,090	19,268,206			(217,716)		22,127,1
ckholders equity:								
nmon stock	193	528		671	(5c)			1,3
litional paid-in capital	132,773	1,321,604	1,754,571	(597,317)	(5a,b,c)	(1,754,571)	(10m)	857,0
ained earnings umulated deficit)	1,543	(280,650)	(437,595)	109,549	(5a,b)	415,495	(10n)	(191,6

umulated other nprehensive (loss) ome	(10,210)	(6,749)	27,663	13,281	(5a,b)	(27,663)	(10o)	(3,6
asury stock		(5,449)		5,449	(5c)			
al stockholders ity	124,299	1,029,284	1,344,639	(468,367)		(1,366,739)		663,1
ncontrolling interest	27			468,367	(5b)			468,3
al equity	124,326	1,029,284	1,344,639			(1,366,739)		1,131,5
al liabilities and ity	$ 483,934	$ 3,746,374	$ 20,612,845	$		$ (1,584,455)		$ 23,258,6

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

Table of Contents

Harbinger Group Inc. and Subsidiaries
Unaudited Pro Forma Condensed Combined Statement of Operations
For the Year Ended December 31, 2010

Historical				Pro Forma Adjustments					
Harbinger Group Inc.	Spectrum Brands Holdings, Inc.	Russell Hobbs, Inc. Six-Month Period Ended March 31, 2010	Fidelity & Guaranty Life Holdings, Inc.	Elimination of Russell Hobbs, Inc. Duplicate Information(6)	SB/RH Merger Related & Other	Note	Initial Notes Offering(8)	Fidelity & Guaranty Acquisition	No
(Amounts in thousands, except per share amounts)									
	$ 2,836,138	$ 406,412	$	$ (35,755)	$		$	$	
			219,970					(130,103)	(10
			915,587					(75,167)	(10
			60,117					21,128	(10
			108,254					38,063	(10
			1,303,928					(146,079)	
	2,836,138	406,412	1,303,928	(35,755)				(146,079)	
	1,799,951	275,668		(23,839)	(2,164)	(7b)			
18,846	816,899	90,647		(11,261)	(32,590)	(5a,e,f,h)(7a)			

18,846	2,616,850	366,315		(35,100)	(34,754)				
			862,994					(68,063)	(10r
			100,902					18,044	(10r
			273,038					(165,963)	(10c
			1,236,934					(215,982)	
18,846	2,616,850	366,315	1,236,934	(35,100)	(34,754)			(215,982)	
(18,846)	219,288	40,097	66,994	(655)	34,754			69,903	
4,963	280,628	11,556	25,019	(3,866)	(98,824)	(5d)	34,834	(25,019)	(10s
(743)	12,543	6,423		923					
(23,066)	(73,883)	22,118	41,975	2,288	133,578		(34,834)	94,922	
(758)	75,733	7,021	(130,122)	(214)	767	(5a,g)		178,499	(10t
(22,308)	(149,616)	15,097	172,097	2,502	132,811		(34,834)	(83,577)	
(3)					293	(5b)			

(22,305)	$	(149,616)	$	15,097	$	172,097	$	2,502	$	132,518		$	(34,834)	$	(83,577)
(1.16)														
(1.16)														
19,286										119,910	(5c)			
19,286														

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

Table of Contents

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

HGI s fiscal year-end was December 31 while Spectrum Brands Holdings fiscal year-end is September 30 and Russell Hobbs fiscal year-end was June 30. HGI S latest reporting period is the year ended December 31, 2010, while Russell Hobbs last reporting period, prior to the SB/RH Merger, was its third quarter results for the nine-month period ended March 31, 2010 and Spectrum Brands Holdings latest reporting period is its three-month period ended January 2, 2011 (which includes results of operations for Russell Hobbs for that full three-month period). In order for the unaudited interim pro forma results to be comparable, results of Russell Hobbs and Spectrum Brands Holdings must reflect twelve months. Because Russell Hobbs results of operations for the six months ended January 2, 2011 are included in Spectrum Brands Holdings historical statements of operations (post SB/RH Merger), Russell Hobbs historical financial information for the statement of operations covering the three-month period ended September 30, 2009 has been excluded, as follows:

	Nine Months Ended March 31, 2010 (A)	Three Months Ended September 30, 2009 (B)	Six Months Ended March 31, 2010 (C)=(A)-(B)
Net sales	$ 617,281	$ 210,869	$ 406,412
Cost of goods sold	422,652	146,984	275,668
Gross profit	194,629	63,885	130,744
Operating expenses:			
Selling	87,539	26,633	60,906
General and administrative	35,715	14,099	21,616
Research and development	6,513	2,296	4,217
Restructuring and related charges	4,665	757	3,908
Total operating expenses	134,432	43,785	90,647
Operating income	60,197	20,100	40,097
Interest expense	24,112	12,556	11,556
Other expense (income), net	5,702	(721)	6,423
Income from continuing operations before income taxes	30,383	8,265	22,118
Income tax expense	11,375	4,354	7,021
Income from continuing operations	$ 19,008	$ 3,911	$ 15,097

To derive Spectrum Brands Holdings results for the twelve months ended January 2, 2011, Spectrum Brands historical statement of operations for the year ended September 30, 2010 has been adjusted to include

the three month period ended January 2, 2011 and exclude the three-month period ended January 3, 2010, as follows:

	Year Ended September 30, 2010	Three Months Ended January 2, 2011	Three Months Ended January 3, 2010	Twelve Months Ended January 2, 2011
	(A)	(B)	(C)	(D) = (A) + (B) - (C)
Net sales	$ 2,567,011	$ 861,067	$ 591,940	$ 2,836,138
Cost of goods sold	1,638,451	561,234	405,827	1,793,858
Restructuring and related charges	7,150	594	1,651	6,093
Gross profit	921,410	299,239	184,462	1,036,187
Operating expenses:				
Selling	466,813	140,220	111,289	495,744
General and administrative	199,386	60,757	40,762	219,381
Research and development	31,013	7,567	6,445	32,135
Acquisition and integration related charges	38,452	16,455	2,431	52,476
Restructuring and related charges	16,968	4,971	4,776	17,163
Total operating expenses	752,632	229,970	165,703	816,899
Operating income	168,778	69,269	18,759	219,288
Interest expense	277,015	53,095	49,482	280,628
Other expense, net	12,300	889	646	12,543
(Loss) income from continuing operations before reorganization items and income taxes	(120,537)	15,285	(31,369)	(73,883)
Reorganization items expense, net	3,646		3,646	
(Loss) income from continuing operations before income taxes	(124,183)	15,285	(35,015)	(73,883)
Income tax expense	63,189	35,043	22,499	75,733
Loss from continuing operations	$ (187,372)	$ (19,758)	$ (57,514)	$ (149,616)

(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, Spectrum Brands, Spectrum Brands Holdings and F&G Holdings. The predecessor of the historical financial statements of Spectrum Brands Holdings is Spectrum Brands. The Spectrum Brands Acquisition is accounted for as a merger among entities under common control with Spectrum Brands Holdings as the predecessor and receiving entity of HGI. 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, Spectrum Brands Holdings and F&G Holdings. HGI will review the accounting policies of HGI, Spectrum Brands Holdings and F&G Holdings to ensure conformity of such

Table of Contents

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.

(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 January 2, 2011 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	120,079
Other assets	15,752

Total assets acquired	822,117
Current liabilities	142,046
Total debt	18,970(1)
Long-term liabilities	63,522
Total liabilities assumed	224,538
Net assets acquired	$ 597,579

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

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

(a) To effect the Spectrum Brands Acquisition, HGI issued its common stock to the Harbinger Parties in exchange for the controlling financial interest in Spectrum Brands Holdings. After this issuance of shares, the Harbinger Parties own approximately 93% of HGI s outstanding common stock. As Spectrum Brands Holdings is the receiving and predecessor entity and under common control of the Harbinger Parties, HGI s assets and liabilities will be recorded at the Harbinger Parties basis as of the date common control was established. The carrying value of HGI s assets and liabilities approximated the Harbinger Parties basis at the date that common control with Spectrum Brands Holdings was established (June 16, 2010). However, adjustments were made to income taxes and pension expense to reflect the effect of rolling back the Harbinger Parties basis in HGI to the January 1, 2010 assumed transaction date for purposes of the unaudited condensed combined pro forma statement of operations. This results in a decrease in Selling, general and administrative expense for pension expense in the amount of $918 for the year ended December 31, 2010. Similarly, the tax adjustment is as shown in the unaudited pro forma condensed combined statement of operations included herein.

The financial statements of Spectrum Brands Holdings, as predecessor, will replace those of HGI for periods prior to the date common control with Spectrum Brands Holdings was established (June 16, 2010) and, as such, these adjustments eliminate HGI s historical retained earnings and accumulated other comprehensive loss prior to that date as well as the subsequent amortization through December 31, 2010 of accumulated other comprehensive loss to retained earnings (through HGI s historical net loss for the period).

(b) Adjustment reflects the noncontrolling interest in Spectrum Brands Holdings upon the completion of the Spectrum Brands Acquisition. HGI owns approximately 54.5% of the outstanding Spectrum Brands Holdings common stock, subsequent to the Spectrum Brands Acquisition. The allocation to noncontrolling interest from the components of stockholders equity reflects 45.5% of Spectrum Brands Holdings stockholders equity at January 2, 2011.

(c) Adjustment reflects the 119,910 shares of HGI common stock issued as a result of the Spectrum Brands Acquisition. The adjustment also reflects the elimination of Spectrum Brands Holdings historical capital structure.

(d) The SB/RH Merger resulted in a substantial change to the Spectrum Brands Holdings debt structure, as further discussed in the notes to the Spectrum Brands Holdings historical financial statements included elsewhere in this prospectus. The change in interest expense is $98,824 for the year ended December 31, 2010. The adjustment consists of the following:

	Assumed Interest Rate		Pro forma Interest Expense
$750,000 Term loan	8.1%	$	60,750
$750,000 Senior secured notes	9.5%		71,250
$231,161 Senior subordinated notes	12.0%		27,739
ABL revolving credit facility	6.0%		1,670
Foreign debt, other obligations and capital leases			12,407
Amortization of debt issuance costs and discounts			15,678
Total pro forma interest expense			**189,494**
Less: elimination of historical interest expense			288,318

Pro forma adjustment	**$**	**(98,824)**

An assumed increase or decrease of 1/8 percent in the interest rate assumed above with respect to the $750,000 term loan and the ABL revolving credit 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 December 31, 2010.

(e) Adjustment reflects increased amortization expense associated with the fair value adjustment of Russell Hobbs intangible assets of $4,806 for the year ended December 31, 2010. This adjustment for the year ended December 31, 2010 reflects an adjustment to the Russell Hobbs historical six-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 the last six months of Spectrum Brands Holdings twelve-month period ended January 2, 2011.

(f) Adjustment reflects an increase in equity awards amortization of $2,664 to reflect equity awards issued in connection with the SB/RH Merger which had vesting periods ranging from 1-12 months. 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.

(g) 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.

(h) Adjustment reflects decreased depreciation expense associated with the fair value adjustment of Russell Hobbs property, plant and equipment of $751. Such amount reflects an adjustment to the Russell Hobbs historical six-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 the last six months of Spectrum Brands Holdings twelve-month period ended January 2, 2011. The adjustment has been recorded to Selling, general and administrative expense. Pro forma impacts to Cost of goods sold for depreciation associated with the fair value adjustment of Russell Hobbs equipment is considered immaterial.

(i) Adjustment reflects the reclassification of HGI s restricted cash related to the initial note offering which became unrestricted upon completion of the Spectrum Brands Acquisition.

(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 Spectrum Brands Holdings 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 six-month Russell Hobbs historical period ended March 31, 2010, prior to the SB/RH Merger, and the six month period ended January 2, 2011, subsequent to the SB/RH Merger, included in Spectrum Brands Holdings historical column.

(7) NON-RECURRING COSTS

(a) Spectrum Brands Holdings financial results for the twelve-month period ended January 2, 2011 include $38,391 of expenses related to the SB/RH Merger. These costs include severance and 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.

(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 months 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 six months ended December 31, 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.

Table of Contents

(8) PRO FORMA ADJUSTMENTS INITIAL NOTES OFFERING

On November 15, 2010, HGI issued the initial notes in private placement to qualified institutional buyers pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended. The issue price of the initial notes was 98.587% of par, reflecting an original issue discount aggregating $4,945, and HGI incurred debt issuance costs of $11,618.

The incremental interest expense related to the initial notes was calculated as follows:

Interest expense on notes at 10.625%	$ 37,188
Amortization of original issue discount on notes	785
Amortization of debt issuance costs	1,824
Total pro forma interest expense	**39,797**
Less: Elimination of historical interest expense	4,963
Pro forma adjustment	**$ 34,834**

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.

(9) 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 to be acquired, as if the Fidelity & Guaranty Acquisition had closed on December 31, 2010, as follows:

Investments, cash and receivables	$ 17,455,047
Reinsurance recoverables	922,252
Deferred income taxes	150,000
Intangible assets	810,897
Other assets	57,294
Total assets acquired	19,395,490
Future policy benefits	3,685,865
Contractholder funds	14,939,186
Liability for policy and contract claims	63,427
Other liabilities	362,012
Total liabilities assumed	19,050,490
Total preliminary purchase price allocation	345,000
Amount re-characterized as expense (See Note 10(a) below)	5,000
Contractual cash purchase price	$ 350,000

(10) 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 $17,100. For purposes of the preliminary purchase price allocation set forth in Note (9) 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 $573,723, $8,955 and $8,853 represent adjustments of $582,678 to available-for-sale securities and $8,853 to accrued investment income, respectively, transferred to F&G Holdings from Old Mutual Reassurance (Ireland) Limited (OM RE) as part of the transaction. The life business ceded to OM RE was recaptured as part of the transaction.

(c) Adjustments of $36,208 and $15,737 represent the derivative investments and cash and cash equivalents, respectively, transferred to F&G Holdings from OM RE as part of the transaction. The life business ceded to OM RE was recaptured as part of the transaction.

(d) Adjustment to reclassify $76,257 of notes receivable from affiliates to cash and cash equivalents. These notes were settled as part of the transaction. An additional adjustment has been made to cash and cash equivalents in the amount of ($12,719) to settle intercompany payables included in F&G Holdings   Other liabilities.

(e) Adjustment of $(907,831) to remove the reinsurance recoverable from OM RE and $220,778 to reflect unamortized deferred acquisition costs transferred from OM RE as part of transaction. The life business ceded to OM RE was recaptured as part of the transaction.

(f) Adjustment of $13,750 to reflect a reserve facility structuring fee related to the retrocession of the life business recaptured from OM RE to a newly formed reinsurance subsidiary. The structuring fee will be capitalized and amortized over the life of the reserve facility.

(g) Adjustments of $(1,916,015) 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 $(69,631) and the establishment of PVIF of $810,897 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).

(h) Adjustment of $(1,702) is the decrease in the deferred tax asset as a result of the changes to the assets and liabilities in purchase accounting of $445,715 net of a deferred tax asset valuation allowance of $447,417 established in purchase accounting.

(i) Adjustment of $1,642 represents the adjustment of the carrying value of other assets to fair value.

(j) Adjustment of $211,909 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 RE.

(k) Adjustment of $(142,495) represents the decrease in the carrying value of F&G Holdings   contractholder funds based on current assumptions.

(l) Adjustments of $(43,577) to adjust historical balance of deferred reinsurance gains to a fair value of $0 and $(244,584) 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 $415,495 represents the elimination of the historical accumulated deficit of F&G Holdings of $437,595 and the adjustment for expenses associated with closing the transaction of $(22,100) reflected in adjustment (a).

(o) Adjustments of $(27,674) and $11 to eliminate the historical balances for net unrealized gains and other, respectively, in accumulated other comprehensive income.

(p) Adjustment of $(70,396) includes the amortization of the premium of $(66,862) on fixed maturity securities available for sale of F&G Holdings, resulting from the fair value adjustment of these assets as of

December 31, 2010 and an adjustment of $(3,534) for the change in the yield on the investments that were sold as part of the purchase agreement and reinvested in lower yielding assets.

(q) Adjustment of $(165,963) for the reversal of the historical deferred acquisition cost amortization of $(273,038) and the amortization of the PVIF under purchase accounting of $107,075.

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

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	18,044

(s) Adjustment of $(25,019) to eliminate interest expense on the note payable referenced in note (l).

(t) Adjustment of $178,499 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 would not have been reflected in operations if purchase accounting had been applied as of January 1, 2010, and (ii) the $33,223 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%.

Table of Contents

SELECTED HISTORICAL FINANCIAL INFORMATION

The following is selected historical financial information of HGI. Selected historical financial information of Spectrum Brands Holdings is included in Annex B hereto.

The following table sets forth our selected historical consolidated financial information for the periods and as of the dates presented. The selected financial information as of December 31, 2010, 2009, 2008, 2007 and 2006 and for each of the five fiscal years then ended has been derived from our audited consolidated financial statements.

The financial information indicated may not be indicative of future performance. This financial information and other data should be read in conjunction with, and is qualified in its entirety by reference to, our respective audited and unaudited consolidated financial statements, including the related notes thereto, our Management s Discussion and Analysis of Financial Condition and Results of Operations and the unaudited pro forma condensed combined financial statements included elsewhere in this prospectus. All amounts are in thousands, except for per share amounts.

	Year Ended December 31,				
	2010(1)	**2009(2)**	**2008**	**2007**	**2006(3)**
Income Statement Data:					
Revenues	$	$	$	$	$
Operating loss	(18,846)	(6,290)	(3,237)	(3,388)	(4,730)
(Loss) income from continuing operations attributable to HGI	(22,305)	(13,344)	(12)	2,551	(273)
Loss from discontinued operations					(4,390)
Net (loss) income	(22,308)	(13,347)	(13)	2,550	(4,664)
Net (loss) income attributable to HGI	(22,305)	(13,344)	(12)	2,551	(4,663)
Net (loss) income per share basic and diluted:					
(Loss) income from continuing operations	(1.16)	(0.69)	(0.00)	0.13	(0.01)
Loss from discontinued operations					(0.23)
Net (loss) income	(1.16)	(0.69)	(0.00)	0.13	(0.24)
Balance Sheet Data (as of year end):					
Working capital(4)	$ 101,656	$ 141,947	$ 153,908	$ 154,275	$ 150,490
Total assets	483,934	152,883	164,032	165,444	163,731
Total HGI stockholders equity	124,299	145,767	158,814	162,099	159,268
Other Data:					
Ratio of earnings to fixed charges				212.4	
Deficiency of earnings (loss) to fixed charges	$ (23,066)	$ (4,781)	$ (111)		$ (91)

(1) During the year ended December 31, 2010, loss from continuing operations reflects a benefit from income taxes of $0.8 million which represents the restoration of deferred tax assets previously written off in connection with

the change in control of our company in 2009, as discussed further in note (2) below, and a related reversal of accrued interest and penalties on uncertain tax positions. These deferred tax assets relate to net operating loss carryforwards which are realizable to the extent we settle our uncertain tax positions for which we have previously recorded $0.8 million of reserves and related accrued interest and penalties.

(2) The change in control of our company in the year ended December 31, 2009 resulted in a change of ownership of our company under sections 382 and 383 of the Internal Revenue Code. As a result, we wrote off approximately $7.4 million of net operating loss carryforward tax benefits and alternative minimum

Table of Contents

tax credits. Additionally, as a result of cumulative losses in recent years, we increased our valuation allowance for our deferred tax assets by $2.8 million.

(3) During 2006, we sold our approximate 57% ownership interest in Omega Protein Corporation in two separate transactions for combined proceeds of $75.5 million. In conjunction with the sale, we recognized transaction related losses of $10.3 million ($7.2 million net of tax adjustments). Such amounts are included under loss from discontinued operations for the year ended December 31, 2006.

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

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

The following is HGI s management s discussion and analysis of financial condition and results of operations. Management s discussion and analysis of financial conditions and results of operations of Spectrum Brands Holdings is included in Annex B hereto.

The following is a discussion of our financial condition and results of operations. This discussion should be read in conjunction with our consolidated financial statements included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed above in Risk Factors, as well as those discussed in this section and elsewhere in this prospectus.

Overview

We are a holding company that is majority owned by the Harbinger Parties.

After the disposition of our 57% ownership interest in the common stock of Omega in December 2006, we have held substantially all of our assets in cash, cash equivalents and short-term investments. Since then, we have been actively looking for acquisition or investment opportunities with a principal focus on identifying and evaluating potential acquisitions of operating businesses. These efforts accelerated after the Harbinger Parties acquired approximately 9.9 million shares, or approximately 51.6%, of our common stock in July 2009 (the 2009 Change of Control).

On November 15, 2010, we completed the offering of the initial notes. The initial notes were sold only to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to certain persons in offshore transactions in reliance on Regulation S and are governed by the indenture. The net proceeds of the offering were held in a segregated escrow account until we completed the Spectrum Brands Acquisition.

On January 7, 2011, we completed the transactions contemplated by the Exchange Agreement, issuing approximately 119.9 million shares of our common stock to the Harbinger Parties in exchange for approximately 27.8 million shares of common stock of Spectrum Brands Holdings. As a result, we own a controlling interest in Spectrum Brands Holdings, with a current market value of approximately $771 million (as of March 31, 2011) and the Harbinger Parties own approximately 93.3% of our outstanding common stock. See The Spectrum Brands Acquisition and Notes 15 and 17 of our consolidated financial statements, included elsewhere in this prospectus, for additional information regarding the Spectrum Brands Acquisition.

On March 7, 2011, HGI entered into the Transfer Agreement with the Master Fund. Pursuant to the Transfer Agreement, on March 9, 2011, (i) HGI 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, the parent of Front Street. In consideration for the interests in Harbinger F&G and FS Holdco, HGI 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 under the F&G Stock Purchase Agreement. Following the consummation of the foregoing acquisitions, Harbinger F&G became the direct wholly-owned subsidiary of HGI, FS Holdco became the direct wholly-owed subsidiary of Harbinger F&G and Front Street became the indirectly wholly-owned subsidiary of Harbinger F&G.

On April 6, 2011, pursuant to 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 could be reduced by up to $50 million post-closing if certain regulatory approval is not received. FGL Insurance Company and FGL NY Insurance Company are F&G Holdings principal insurance companies, and are direct wholly-owned subsidiaries of F&G Holdings. See Annex E, Certain Information Regarding Harbinger F&G, LLC.

We are focused on obtaining controlling equity stakes in subsidiaries 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 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 serves as Chairman of our Board, Chief Executive Officer and President and 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.

Results of Operations

Presented below is a table that summarizes our results of operations and compares the amount of the change between the years ended December 31, 2010 and 2009 (the 2010 Change) and between the years ended December 31, 2009 and 2008 (the 2009 Change).

	Year Ended December 31,			Increase/(Decrease)	
	2010	2009	2008	2010 Change	2009 Change
	(in thousands, except per share amounts)				
Revenues	$	$	$	$	$
Cost of revenues					
Gross profit					
Operating expenses:					
General and administrative	18,846	6,290	3,237	12,556	3,053
Total operating expenses	18,846	6,290	3,237	12,556	3,053
Operating loss	(18,846)	(6,290)	(3,237)	(12,556)	(3,053)
Other income (expense):					
Interest expense	(4,963)			(4,963)	
Interest income	220	229	3,013	(9)	(2,784)
Other, net	523	1,280	113	(757)	1,167
	(4,220)	1,509	3,126	(5,729)	(1,617)
Loss before income taxes	(23,066)	(4,781)	(111)	(18,285)	(4,670)
	758	(8,566)	98	9,324	(8,664)

Benefit from (provision for) income taxes										
Net loss		(22,308)		(13,347)		(13)		(8,961)		(13,334)
Less: Net loss attributable to the noncontrolling interest		3		3		1				2
Net loss attributable to Harbinger Group Inc.	$	(22,305)	$	(13,344)	$	(12)	$	(8,961)	$	(13,332)
Net loss per common share basic and diluted	$	(1.16)	$	(0.69)	$	(0.00)	$	(0.47)	$	(0.69)

67

Fiscal Year Ended December 31, 2010 Compared to Fiscal Year Ended December 31, 2009

We reported a net loss of $22.3 million or $1.16 per diluted share for the year ended December 31, 2010, compared to a net loss of $13.3 million or $(0.69) per diluted share for the year ended December 31, 2009. The increase in our net loss principally resulted from (i) a $10.3 million increase in professional fees associated with advisors retained to assist us in evaluating business acquisition opportunities, including the Spectrum Brands Acquisition, and preparing related public company filings, (ii) interest expense of $5.0 million on our notes and (iii) to a much lesser extent, from additional employee and other costs related to relocating our corporate headquarters, all partially offset by the nonrecurring effect of $8.6 million of income tax charges in 2009 principally in connection with our change in controlling stockholders.

The following presents a more detailed discussion of our operating results:

Revenues. For the years ended December 31, 2010 and 2009, we had no revenues. We sold our remaining operating business in December 2006 and we do not expect to recognize revenues until we consolidate our results with Spectrum Brands Holdings.

Cost of revenues. For the years ended December 31, 2010 and 2009, we had no cost of revenues.

General and administrative expenses. General and administrative expenses consist primarily of professional fees (including advisory services, legal and accounting fees), salaries and benefits, pension expense and insurance costs. General and administrative expenses increased $12.5 million to $18.8 million for the year ended December 31, 2010 from $6.3 million for the year ended December 31, 2009. This increase was primarily a result of an increase in professional fees associated with advisors retained to assist us in evaluating business acquisition opportunities, including the Spectrum Brands Acquisition, and preparing related public company filings and, to a much lesser extent, increases in employee and other costs related to relocating our corporate headquarters to New York City. During 2010 we incurred $10.9 million in professional fees related to potential acquisitions, including $5.2 million related to the Spectrum Brands Acquisition, compared to $0.6 million in 2009.

Interest expense. Interest expense was $5.0 million for the year ended December 31, 2010. The interest expense is related to our notes issued November 15, 2010, including the amortization of the original issue discount and debt issuance costs. There was no debt outstanding or related interest expense during the year ended December 31, 2009.

Interest income. Interest income decreased $9,000 to $220,000 for the year ended December 31, 2010 from $229,000 for the year ended December 31, 2009, resulting from sustained lower interest rates on our cash equivalents and investments which were invested principally in U.S. Government instruments.

Other. Other income was $0.5 million and $1.3 million for the years ended December 31, 2010 and 2009, respectively. Our other income in 2010 was primarily related to settlements on legal claims relating to solvent schemes with insurers in various markets. The fluctuation in other income will vary as we reach settlements with these insurers. Our other income in 2009 included a refund of excess collateral of $0.8 million from a rent-a-captive insurance arrangement we entered into in 1993 and $0.3 million from insurance termination settlement arrangements related to certain non-operating subsidiaries.

Income taxes. The benefit from income taxes for the year ended December 31, 2010 principally represents the restoration in the 2010 first quarter of $0.8 million of deferred tax assets previously written off in connection with the 2009 Change in Control of HGI and a related reversal of accrued interest and penalties on uncertain tax positions. These deferred tax assets relate to net operating loss carryforwards which are realizable to the extent we settle our uncertain tax positions for which we had previously recorded $0.8 million of reserves and related accrued interest and

penalties. As a result, the final resolution of these uncertain tax positions will have no net effect on our future provision for (or benefit from) income taxes.

The provision for income taxes for the year ended December 31, 2009 principally represents the write-off of $7.4 million of net operating loss carryforward tax benefits and alternative minimum tax credits. This

resulted from our ownership change that, pursuant to Sections 382 and 383 of the Internal Revenue Code, limits our ability to utilize our net operating loss carryforwards and alternative minimum tax credits. We also recorded a valuation allowance for deferred tax assets whose realization did not meet the more likely than not criteria.

Due to our cumulative losses in recent years, we determined that, as of December 31, 2010, a valuation allowance was still required for all of our deferred tax assets other than those which are realizable upon settlement of our uncertain tax positions, as described above. Accordingly, we do not expect to record any future benefit from income taxes until it is more likely than not that some or all of our remaining net operating loss carryforwards will be realized.

Fiscal Year Ended December 31, 2009 Compared to Fiscal Year Ended December 31, 2008

We reported a net loss of $13.3 million or $(0.69) per diluted share for the year ended December 31, 2009 compared to a net loss of $12,000 or $(0.00) per diluted share in for the year ended December 2, 2008. The increase in net loss resulted from the write off of $7.4 million of net operating loss carryforward tax benefits and alternative minimum tax credits resulting from the 2009 Change of Control which constituted a change of ownership under Sections 382 and 383 of the Internal Revenue Code. Additionally, as a result of cumulative losses in recent years, we increased our valuation allowance for our deferred tax assets by $2.8 million during the fourth quarter of 2009. The increase in net loss also resulted from increases in professional fees and pension expenses and a decrease in interest income, all partially offset by the recognition of other income in 2009 related to former businesses of HGI.

The following presents a more detailed discussion of our operating results:

Revenues. For the years ended December 31, 2009 and 2008, we had no revenues.

Cost of revenues. For the years ended December 31, 2009 and 2008, we had no cost of revenues.

General and administrative expenses. General and administrative expenses increased $3.1 million to $6.3 million for the year ended December 31, 2009 from $3.2 million for the year ended December 31, 2008. This increase was primarily a result of increased professional fees of $1.9 million, predominately arising from the 2009 Change of Control, the transition to a reconstituted Board, the Reincorporation Merger, increased efforts in evaluating possible business acquisitions, and an increase of $0.9 million in actuarially determined pension expenses.

Interest income. Interest income decreased $2.8 million to $0.2 million for the year ended December 31, 2009 from $3.0 million for the year ended December 31, 2008, which results from sustained lower interest rates on our cash equivalents and investments which were invested principally in U.S. Government instruments.

Other. Other income, net was $1.3 million and $0.1 million for the year ended December 31, 2009 and 2008, respectively. During 2009, we received a refund of excess collateral of $0.8 million from a rent-a-captive insurance arrangement which we entered into in 1993. As we had previously written off the balance of our excess collateral, the full amount of this refund was recorded as other income. Also during 2009, we received $0.3 million from settlement agreements entered into during 2009 in which we agreed to accept a payment in exchange for the termination of insurance coverage on certain non-operating subsidiaries.

Income taxes. Despite a pretax loss of $4.8 million, we recorded a provision for income taxes of $8.6 million for the year ended December 31, 2009 compared to a benefit for income taxes of $0.1 million for the prior year. The change from a benefit to a provision resulted primarily from the write-off of $7.4 million of net operating loss carryforward tax benefits and alternative minimum tax credits resulting from the 2009 Change of Control which constituted a change in ownership under Sections 382 and 383 of the Internal Revenue Code. We had determined that, as of December 31, 2009, a valuation allowance of approximately $2.8 million was required for deferred tax assets whose

realization did not meet the more likely than not criteria.

Effect of the Spectrum Brands Acquisition and the Fidelity & Guaranty Acquisition on our Future Consolidated Financial Statements

Immediately prior to the Spectrum Brands Acquisition, the Harbinger Parties (or Parent) 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 ASC Topic 805, Business Combinations, and will be 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 should be recorded by the receiving entity based on their carrying amounts (or at the historical cost of the parent, if these amounts differ). Although we were the issuer of shares in the Spectrum Brands Acquisition, during the historical periods prior to the acquisition, Spectrum Brands Holdings was an operating business and we were not. Therefore, Spectrum Brands Holdings will be 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 assets and liabilities will be recorded at the Parent s basis as of the date that common control was first established (June 16, 2010). Our financial statements will be retrospectively adjusted to reflect as our historical financial statements those of Spectrum Brands Holdings and Spectrum Brands, a wholly-owned subsidiary of Spectrum Brands Holdings. Spectrum Brands Holdings was formed and, on June 16, 2010, acquired 100% of both Russell Hobbs, now a wholly-owned subsidiary of Spectrum Brands, and Spectrum Brands in exchange for issuing an approximately 65% controlling financial interest to the Harbinger Parties and an approximately 35% non-controlling financial interest to other stockholders (other than the Harbinger Parties). As Spectrum Brands was the accounting acquirer in the SB/RH Merger, the financial statements of Spectrum Brands will be 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. As a result of the Spectrum Brands Acquisition and the change in our fiscal year, our next quarterly report on Form 10-Q will be for the six months ended April 3, 2011, which will reflect the combination of us and Spectrum Brands Holdings retrospectively to the beginning of that six-month period.

The Fidelity & Guaranty Acquisition will be accounted for under the acquisition method of accounting and, accordingly, will be reflected in our consolidated financial statements effective with the April 6, 2011 acquisition date. See Unaudited Pro Forma Condensed Combined Financial Statements included elsewhere in this prospectus.

Liquidity and Capital Resources

Our liquidity needs are primarily for interest payments on our long-term debt, professional fees (including advisory services, legal and accounting fees), salaries and benefits, office rent, pension expense and insurance costs. We may also utilize a significant portion of our cash, cash equivalents and investments to fund all or a portion of the cost of any future acquisitions and related expenses.

The following table summarizes information about our contractual obligations (in thousands) as of December 31, 2010 and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

	Payments Due by Period				
Contractual Obligations(1)	**Total**	**2011**	**2012-2013**	**2014-2015**	**After 2015**
Long-term debt(2)	$ 350,000	$	$	$ 350,000	$

Interest payments on long-term debt(2)	185,938	37,188	74,375	74,375	
Pension liabilities(3)	3,709	98	189	168	3,254
Retirement agreement(4)	436	113	226	97	
Operating lease obligations(5)	416	208	208		
Total contractual obligations	$ 540,499	$ 37,607	$ 74,998	$ 424,640	$ 3,254

70

(1) We also have $0.4 million of potential obligations related to uncertain tax positions for which the timing and amount of payment cannot be reasonably estimated due to the nature of the uncertainties. See Note 10 to our consolidated financial statements, included elsewhere in this prospectus.

(2) Represents the notes. See Note 7 to our consolidated financial statements, included elsewhere in this prospectus.

(3) For more information concerning pension liabilities, see Note 12 to our consolidated financial statements, included elsewhere in this prospectus.

(4) Amounts in this category relate to a retirement agreement entered into in 1981 with a former executive officer.

(5) Operating lease obligation includes our real estate lease for our corporate headquarters located in New York, New York. For more information concerning our operating lease, see Note 11 to our consolidated financial statements, included elsewhere in this prospectus.

Our current source of liquidity is our cash, cash equivalents and investments. Because we have historically limited our investments principally to U.S. Government instruments, we do not presently earn significant interest income. In the future, we may expand our investment approach to include investments that will generate greater returns. We are exploring alternative investment opportunities for our cash while we search for acquisition opportunities.

We are a holding company that is dependent on the proceeds realized from investments and dividends or distributions from our subsidiaries as our primary source of cash. The ability of our subsidiaries to generate sufficient net income and cash flows to make upstream cash distributions is subject to numerous factors, including restrictions contained in our subsidiaries financing agreements, availability of sufficient funds in such subsidiaries and applicable state laws and regulatory restrictions. At the same time, our subsidiaries may require additional capital to grow their businesses. Such capital could come from us, 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 FGL Insurance Company.

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. As of December 31, 2010, our cash, cash equivalents and investments were $471.1 million (of which $360.1 was restricted pending the completion of the Spectrum Brands Acquisition) compared to $151.9 million as of December 31, 2009. Subsequent to December 31, 2010, the $360.1 million restricted balance became unrestricted and we used $350 million of cash for the Fidelity & Guaranty Acquisition and approximately $17.1 million for related expenses.

Based on current levels of operations, we do not have any significant capital expenditure commitments and management believes that our consolidated cash, cash equivalents and investments on hand will be adequate to fund our operational and capital requirements for at least the next twelve months. Depending on the size and terms of future investments in operating businesses or assets, we 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 us.

Long-term Debt

On November 15, 2010, we issued $350 million aggregate principal amount of the notes. The notes were sold only to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to certain persons in offshore transactions in reliance on Regulation S, but have future registration requirements. The notes were issued at a price

equal to 98.587% of the principal amount thereof, with an original issue discount aggregating $4.9 million. Interest on the notes is payable semi-annually, commencing on May 15, 2011 and ending November 15, 2015. The notes, net of unamortized original issue discount, are classified as Long-term debt in the accompanying consolidated balance sheet as of December 31, 2010.

The net proceeds from issuance of the notes, together with an amount equal to accrued interest and amortized original issue discount to April 7, 2011, were deposited into a segregated escrow account pending

the completion of the Spectrum Brands Acquisition. Such escrow balance is classified as Restricted cash in the accompanying consolidated balance sheet as of December 31, 2010. The escrow balance was subsequently released to us on January 7, 2011 upon completion of the Spectrum Brands Acquisition and the collateralization of the notes with a first priority lien on all of our assets, including the Spectrum Brands Holdings common stock acquired by us as well as all of the stock held by us in our other direct subsidiaries and our cash, cash equivalents and investment securities. We used the net proceeds from the offering of the initial notes, together with other available funds, to pay the purchase price of the Fidelity & Guaranty Acquisition.

We have the option to redeem the 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 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 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 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 notes remains outstanding immediately thereafter.

The indenture governing the notes contains covenants limiting, among other things, and subject to certain qualifications and exceptions, our ability, and, in certain cases, the ability of our subsidiaries, to incur additional indebtedness; create liens; engage in sale-leaseback transactions; pay dividends or make distributions in respect of capital stock; make certain restricted payments; sell assets; engage in transactions with affiliates; or consolidate or merge with, or sell substantially all of our assets to, another person. We are also required to maintain compliance with certain financial tests, including minimum liquidity and collateral coverage ratios that are based on the fair market value of the collateral, including the shares of Spectrum Brands Holdings common stock owned by us, subsequent to the collateralization on January 7, 2011. We were in compliance with all of such applicable covenants as of December 31, 2010.

We incurred $11.6 million of costs in connection with our issuance of the notes. These costs are classified as Debt issuance costs in the consolidated balance sheet as of December 31, 2010 included elsewhere in this prospectus and, along with the original issue discount, are being amortized to interest expense utilizing the effective interest method over the term of the notes.

Off-Balance Sheet Arrangements

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. 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 position, results of operations or cash flows. Further, we have no reason to believe that future costs to settle claims related to our former operations will have material impact on our financial position, results of operations or cash flows. Additionally, we have indemnified our directors and officers who are, or were, serving at our request in such capacities.

Table of Contents

Summary of Cash Flows

The following table summarizes our consolidated cash flow information for the last three years (in thousands):

	Year Ended December 31,		
	2010	2009	2008
Cash (used in) provided by:			
Operating activities	$ (13,972)	$ (2,694)	$ 389
Investing activities	(47,974)	(12,068)	3,054
Financing activities	(26,675)		
Net (decrease) increase in cash and cash equivalents	$ (88,621)	$ (14,762)	$ 3,443

Net cash (used in) provided by operating activities.

Cash used in operating activities was $14.0 million for the year ended December 31, 2010 compared to cash used in operating activities of $2.7 million for the year ended December 31, 2009. The increase in usage of cash is primarily related to higher general and administrative expenditures, which includes advisory, legal and accounting fees related to the Spectrum Brands Acquisition for the year ended December 31, 2010.

Cash used in operating activities was $2.7 million for the year ended December 31, 2009 compared to cash provided by operating activities of $0.4 million for the year ended December 31, 2008. The change from cash provided by operating activities to cash used in operating activities resulted principally from lower interest income and higher general and administrative expenditures during 2009 compared to 2008.

Net cash (used in) provided by investing activities.

Variations in our net cash (used in) provided by investing activities are typically the result of the change in mix of cash, cash equivalents and investments during the period. All highly liquid investments with original maturities of three months or less are considered to be cash equivalents and all investments with original maturities of greater than three months are classified as either short- or long-term investments.

Cash used in investing activities was $48.0 million for the year ended December 31, 2010 compared to $12.1 million for the year ended December 31, 2009. The increase in cash used in investing activities resulted principally from additional net purchases of short-term investments during the year ended December 31, 2010 compared to the year ended December 31, 2009.

Cash used in investing activities was $12.1 million for the year ended December 31, 2009 compared to cash provided by investing activities of $3.1 million for the year ended December 31, 2008. This change from cash provided by investing activities to cash used in investing activities resulted from additional net purchases of investments during 2009 compared to 2008.

Net cash used in financing activities.

Cash used in financing activities was $26.7 million for the year ended December 31, 2010 and principally related to our issuance of the notes. We received $345.1 million of proceeds from the issuance of the notes, net of original issue

discount of $4.9 million. The proceeds, along with $15.0 million representing accrued interest and amortized original issue discount to April 7, 2011, were placed in a restricted escrow account pending completion of the Spectrum Brands Acquisition and collateralization of the notes, which subsequently occurred on January 7, 2011. We also incurred $11.6 million of debt issuance costs related to the notes. We had no cash flows from financing activities for the years ended December 31, 2009 or 2008.

Recent Accounting Pronouncements Not Yet Adopted

As of the date of this prospectus, there are no recent accounting pronouncements that have not yet been adopted that we believe may have a material impact on our consolidated financial statements.

Table of Contents

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition, liquidity and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect amounts reported therein. The following lists our current accounting policies involving significant management judgment and provides a brief description of these policies:

Litigation and environmental reserves. The establishment of litigation and environmental reserves requires judgments concerning the ultimate outcome of pending claims against us 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 $0.3 million we have accrued as of December 31, 2010, that difference will be reflected in our results of operations when the matter is resolved or when our estimate of the cost changes.

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.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Cumulative losses weigh heavily in the overall assessment of the need for a valuation allowance. As a result of our cumulative losses in recent years, we determined that, as of December 31, 2010, a valuation allowance was required for all of our deferred tax assets other than an amount which is realizable upon settlement of our uncertain tax positions. Consequently, our valuation allowance increased from $2.7 million as of December 31, 2009 to $8.6 million as of December 31, 2010 principally due to our inability to recognize an income tax benefit on our pretax losses during 2010.

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 $0.4 million as of December 31, 2010.

Defined benefit plan assumptions. We have two defined benefit plans, under which participants earn a retirement benefit based upon a formula set forth in each plan. We record income or expense related to these plans using actuarially determined amounts that are calculated using the accounting guidance for pensions. Key assumptions used in the actuarial valuations include the discount rate and the anticipated rate of return on plan assets. 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 our estimates are reasonable for these key actuarial assumptions, future actual results may differ from our estimates, and these differences could be material to our 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 establish the expected long-term rate of return at the beginning of each year based upon information available to us at that time, including the plan s investment mix and the forecasted rates of return on these types of securities.

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. For example, due to significant adverse market conditions during 2008, our pension expense significantly increased during 2009 and continued at that higher level during 2010. A significant component of the increase was caused by the amortization of actuarial losses which reflects the increase in the accumulated differences in actual plan results compared to assumptions utilized in previous years.

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

We did not have any market risk exposure to changes in interest rates, foreign currency exchange rates, equity prices or commodity prices at December 31, 2010. At that date, our investments consisted entirely of U.S. Treasury securities with maturities of less than one year that were being held to maturity. We had no outstanding derivative instruments at December 31, 2010. The $350 million principal amount of our outstanding debt bears interest at a fixed rate of 10.625% per annum and, accordingly, there is no variability in the amount of our future semi-annual interest payments.

Spectrum Brands Holdings and F&G Holdings both utilize derivatives. See the notes to the historical financial statements of Spectrum Brands Holdings and F&G Holdings included elsewhere in this prospectus.

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 were reincorporated in Delaware under the name Harbinger Group Inc. We had approximately $471.1 million in cash, cash equivalents and short-term investments of which $360.1 million was restricted pending the completion of the Spectrum Brands Acquisition) as of December 31, 2010. 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.

After the completion of the disposition of our 57% ownership interest in the common stock of Omega in December 2006, we have held substantially all of our assets in cash, cash equivalents and short-term investments. Since then, we have been actively looking for acquisition or investment opportunities with a principal focus on identifying and evaluating potential acquisitions of operating businesses. These efforts accelerated after the Harbinger Parties acquired approximately 9.9 million shares, or approximately 51.6%, of our common stock in July 2009 (the 2009 Change of Control).

On November 15, 2010, we completed the offering of the initial notes. The initial notes were sold only to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to certain persons in offshore transactions in reliance on Regulation S, and are government by the indenture, dated as of November 15, 2010, between HGI and Wells Fargo Bank, National Association, as trustee. The net proceeds of the offering were held in a segregated escrow account until we completed the Spectrum Brands Acquisition described below.

On January 7, 2011, we issued approximately 119.9 million shares of our common stock to the Harbinger Parties in exchange for approximately 27.8 million shares of common stock of Spectrum Brands Holdings. As a result of the Spectrum Brands Acquisition, we own a controlling interest in Spectrum Brands Holdings, with a current market value of approximately $771 million (as of March 31, 2011) and the Harbinger Parties own approximately 93.3% of our outstanding common stock. See The Spectrum Brands Acquisition and Notes 15 and 17 of our consolidated financial statements, included elsewhere in the prospectus, for additional information regarding the Spectrum Brands Acquisition.

On March 7, 2011, HGI entered into the Transfer Agreement with the Master Fund. Pursuant to the Transfer Agreement, on March 9, 2011, (i) HGI 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, the parent of Front Street. In consideration for the interests in Harbinger F&G and FS Holdco, HGI 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 under the F&G Stock Purchase Agreement. Following the consummation of the foregoing acquisitions, Harbinger F&G became the direct wholly-owned subsidiary of HGI, FS Holdco became the direct wholly-owed subsidiary of Harbinger F&G and Front Street became the indirectly wholly-owned subsidiary of Harbinger F&G.

On April 6, 2011, pursuant to 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 could be reduced by up to $50 million post-closing if certain regulatory approval is not received. FGL Insurance Company and FGL NY Insurance Company are F&G Holdings principal insurance companies, and are direct wholly-owned subsidiaries of F&G Holdings. See Annex E, Certain Information Regarding Harbinger F&G, LLC The Fidelity & Guaranty Acquisition, for further information.

Business Strategy

We are focused on obtaining controlling equity stakes in subsidiaries 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.

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 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.

We have not focused and do not intend to focus our acquisition efforts solely on any particular industry. 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.

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, Chief Executive Officer and President and has been the Chief Investment Officer of 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.

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 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.

Financial Information about Industry Segments

We follow the accounting guidance which establishes standards for reporting information about operating segments in annual financial statements and related disclosures about products and services, geographic areas and major customers. We have determined that we do not have any separately reportable operating segments for the years ended December 31, 2010, 2009 and 2008.

Table of Contents

Employees

At March 31, 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 expect we will need to hire additional employees as a result of our ownership of a majority interest in Spectrum Brands Holdings, our acquisition of F&G Holdings and the increasing complexity of our business.

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

In 2004, Utica Mutual Insurance Company (Utica Mutual) commenced an action against us in the Supreme Court for the County of Oneida, State of New York, seeking reimbursement under a general agreement of indemnity entered into by us in the late 1970s. Based upon the discovery to date, Utica Mutual is seeking reimbursement for payments it claims to have made under (1) a workers compensation bond and (2) certain reclamation bonds which were issued to certain former subsidiaries and are alleged by Utica Mutual to be covered by the general agreement of indemnity. While the precise amount of Utica Mutual s claim is unclear, it appears it is claiming approximately $0.5 million, including approximately $0.2 million relating to the workers compensation bond and approximately $0.3 million relating to the reclamation bonds.

In 2005, we were notified by Weatherford of a claim for reimbursement of approximately $0.2 million in connection with the investigation and cleanup of purported environmental contamination at two properties formerly owned by a non-operating subsidiary of ours. The claim was made under an indemnification provision given by us to Weatherford in a 1995 asset purchase agreement and relates to alleged environmental contamination that purportedly existed on the properties prior to the date of the sale. Weatherford has also advised us that it anticipates that further remediation and cleanup may be required, although Weatherford has not provided any information regarding the cost of any such future clean up. We have challenged any responsibility to indemnify Weatherford. We believe that we have meritorious defenses to the claim, including that the alleged contamination occurred after the sale of the property, and we intend to vigorously defend against it.

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.

In addition to the matters described above, we are involved in other litigation and claims incidental to our current and prior businesses. These include 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.

We have aggregate reserves for our legal and environmental matters of approximately $0.3 million at both December 31, 2010 and December 31, 2009, which reserves relate primarily to the Utica Mutual and Weatherford claims described above. However, based on currently available information, including legal defenses available to us, and given the aforementioned 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

A description of the business of Spectrum Brands Holdings is included in Annex C hereto.

F&G Holdings

A description of the business of F&G Holdings is included in Annex E hereto.

Table of Contents

MANAGEMENT

The following table sets forth the name, age and position of our directors and officers.

Name	Age	Position
Philip A. Falcone	48	Chairman of the Board, President and Chief Executive Officer
Peter A. Jenson	46	Chief Operating Officer and Director
Francis T. McCarron	54	Executive Vice President and Chief Financial Officer
Richard H. Hagerup	58	Interim Chief Accounting Officer
Lap Wai Chan	44	Director
Lawrence M. Clark, Jr.	39	Director
Keith M. Hladek	35	Director
Thomas Hudgins	71	Director
Robert V. Leffler, Jr.	65	Director

Philip A. Falcone, age 48, has served as a director, Chairman of the Board, President 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 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. 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 joining the Harbinger Capital affiliated funds is an affiliate of HGI. We elected Mr. Falcone as a director because of his extensive investment experience and his controlling relationship with our controlling stockholders. We elected Mr. Falcone as our Chairman of the Board, President and Chief Executive Officer because of his experience, and current position, as Chief Investment Officer and Chief Executive Officer of Harbinger Capital.

Peter A. Jenson, age 46, has served as a director and Secretary of HGI since July 2009. He is Chief Operating Officer of Harbinger Capital, an affiliate of HGI, and was elected Chief Operating Officer of HGI and Zap.Com in May 2010. He also serves as Secretary of Zap.Com. Mr. Jenson is responsible for all operational activities of Harbinger Capital (including the Harbinger Parties and their management companies), including trade operations, portfolio accounting, valuation, treasury and portfolio financing, legal and compliance, information technology, administration and human resources. Prior to joining Harbinger Capital in 2009, Mr. Jenson held similar senior executive positions where he was responsible for finance and administration activities at Citadel Investment Group, a global financial institution, and Constellation Commodity Group, an energy company. Mr. Jenson was also a Partner at PricewaterhouseCoopers LLP where he was responsible for attestation and consulting activities across a broad spectrum of financial services clients, including commercial and international banks, trading organizations and investment companies. None of the companies Mr. Jenson worked with before joining Harbinger Capital are affiliates of HGI. Mr. Jenson is a Chartered Accountant and a Certified Practising Accountant in Australia, as well as a Fellow of The Securities Institute in Australia. We elected Mr. Jenson as a director because of his expertise in operational activities, his knowledge of accounting and finance and his relationship with the Harbinger Parties, thereby providing the Board of Directors with important interaction with, and access to, our controlling stockholders.

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.

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. We elected Mr. Chan as a director because of his extensive investment experience, particularly in Asia and Latin America, which strengthens the Board s collective qualifications, skills and experience.

Lawrence M. Clark, Jr., age 39, has served as a director of HGI since July 2009. Until January 2011, Mr. Clark was a Managing Director and Director of Investments of Harbinger Capital, where he was responsible for investments in metals, mining, industrials and retail companies, among other sectors. Mr. Clark served in that position from January 2006 and prior to that was a vice president from October 2002. Mr. Clark has launched BalanTrove Partners, a hedge fund. Prior to joining Harbinger Capital, from April 2001, Mr. Clark was a Distressed Debt and Special Situations Research Analyst at Satellite Asset Management, L.P. (Satellite), where he covered financially stressed and distressed industrial, cyclical and energy companies. He has actively participated in several financial restructurings in official and unofficial capacities as representative of holders of both secured and unsecured creditors. BalanTrove Partners and Satellite are not affiliates of HGI. Mr. Clark has completed Levels I and II of the Chartered Financial Analyst designation program. We elected Mr. Clark as a director because of his extensive investment experience in a broad range of industries and varying financial cycles.

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 of Harbinger Capital, an affiliate of HGI. Mr. Hladek is responsible for all accounting and operations of Harbinger Capital affiliated funds 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. We elected Mr. Hladek as a director because of his extensive accounting and operations experience and his relationship with the Harbinger Parties, thereby providing the Board with important interaction with, and access to, our controlling stockholders.

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. We elected Mr. Hudgins because he possesses particular

knowledge and experience in accounting, finance and capital structures, which strengthens the Board s collective qualifications, skills and experience.

Robert V. Leffler, Jr., age 65, has served as a director of HGI since May 1995. For more than the past six years, Mr. Leffler has owned and operated the Leffler Agency, an advertising and marketing/public relations firm based in Baltimore, Maryland and Tampa, Florida, which specializes in sports, rental real estate and broadcast television. The Leffler Agency is not an affiliate of HGI. We elected Mr. Leffler because we believe he provides a unique historical perspective to our long operating history in light of his service on our Board since 1995.

CERTAIN CORPORATE GOVERNANCE MATTERS

Controlled Company

The Board 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 has determined that it is appropriate not to have a nominating/corporate governance committee 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. In April 2011, the board of directors formed a compensation committee. 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.

Director Independence

The Board has determined that Messrs. Chan, Hudgins and Leffler are independent members of the board of 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 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 has adopted categorical standards or guidelines to assist the Board 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.

Table of Contents

COMPENSATION DISCUSSION AND ANALYSIS

This section provides an overview and analysis of our compensation program and policies, the material compensation decisions made under those programs and policies, and the material factors considered in making those decisions. The discussion below is intended to help you understand the detailed information provided in our executive compensation tables and put that information into context within our overall compensation program. The series of tables following this Compensation Discussion and Analysis provides more detailed information concerning compensation earned or paid in fiscal year 2010 for the Company s directors and earned or paid in our 2008, 2009 and 2010 fiscal years for the following individuals (the named executive officers):

Philip A. Falcone, our Chairman of the Board, President and Chief Executive Officer,

Francis T. McCarron, our Executive Vice President and Chief Financial Officer, who was appointed in December 2009, and

Leonard DiSalvo, our Vice President Finance until May 31, 2010.

Our Board as a whole has functioned as our compensation committee. Our Board does have a compensation philosophy, but it has determined that a compensation program is not yet necessary or appropriate because the Company currently has only one named executive officer who receives compensation from us. Specifically, Mr. Falcone does not receive any compensation for his services as our Chairman of the Board, President and Chief Executive Officer. Mr. McCarron was the first executive officer employed by the Board following the Harbinger Parties acquisition of a controlling interest in the Company in July 2009 (the *2009 Change in Control*) and, at that time, the Board did not find it necessary to have a compensation program in place. The compensation arrangement for Mr. DiSalvo, our former Vice President Finance, was approved by our Board several years ago, prior to the 2009 Change in Control, and this compensation formed the basis for Mr. DiSalvo s retention and severance package.

In April 2011, the Board formed a Compensation Committee to (i) oversee our compensation and employee benefits plans and practices, including our executive compensation plans and our incentive compensation and equity-based plans, (ii) consider hiring and significant compensation decisions with respect to executive officers and make recommendations to the Board for approval, (iii) evaluate the performance of our executive officers in light of established goals and objectives and (iv) review and discuss with management our compensation discussion and analysis disclosure and compensation committee reports in order to comply with our public reporting requirements. The Board appointed Messrs. Leffler (Chairman), Chan and Hudgins as members of the Compensation Committee. The Compensation Committee may decide in the future to adopt a compensation program.

Compensation Philosophy and General Objectives

Our compensation philosophy is to grant compensation that will attract and retain employees who are able to meaningfully contribute to our success. We will both reward employees for past performance and provide an incentive for future achievement. We will also strive to align the interests of our executive officers with our stockholders by providing our executive officers with equity interests in HGI. We will also be mindful of fairness to all stakeholders.

Components of Executive Compensation

The principal elements of compensation for Mr. McCarron, our only named executive officer currently compensated by us, are:

base salary;

annual bonus potential;

a long-term component consisting of a stock-related award; and

perquisites and other personal benefits.

We use incentive compensation, including bonuses, to provide a substantial cash payment opportunity based upon our achievement of budgetary and other objectives. We have used stock options as a long-term incentive designed to provide reward tied to the price of our common stock. The Board believes that equity awards, which provide value to the participants only when our stockholders benefit from stock price appreciation, are an appropriate complement to our overall compensation philosophy and will help align the interests of our executives with those of stockholders. In addition, the Board believes that long term incentives will provide an important retentive component to our overall compensation program. Mr. DiSalvo participated in our benefit plans until the termination of his employment on May 31, 2010. Mr. Falcone does not participate in our benefit plans.

We provide Mr. McCarron with standard medical, dental, vision and disability coverage and life insurance available to employees generally. Perquisites are intended to provide the executives with benefits that are typically offered in addition to the standard benefits package in similar sized companies. Generally, the Board believes that perquisites should not be a significant component of our compensation philosophy.

We believe that the various components of our executive compensation philosophy, in the aggregate, will provide a strong link between compensation and performance. We also believe that such elements will align the interests of our employees with our stockholders by creating a strong compensatory incentive to successfully drive our growth and achieve the goals we set for our individual executives and our business.

How We Chose Amounts for Each Element of Our Named Executive Officers Compensation

Generally

Prior to the 2009 Change in Control, the Company had a Compensation Committee that was responsible for the approval and administration of compensation programs for the Company s executives. Following the 2009 Change in Control, our Compensation Committee was disbanded because we had a very limited number of senior executives and, as a controlled company under applicable NYSE Rules, we are not required to have a compensation committee. Instead, our entire Board has been responsible for determining compensation for our directors and executive officers. Because we expect our executive compensation decisions will become more numerous and complex with the completion of Spectrum Brands Acquisition and the Insurance Transaction, in April 2011 our Board formed a Compensation Committee and delegated to it the authority to recommend the amount or form of executive and director compensation.

Mr. McCarron s compensation package was negotiated in late 2009 by our Chief Executive Officer and Chief Operating Officer who have substantial experience in establishing management compensation, and was approved by our Board. Mr. DiSalvo s original compensation package was negotiated in September 1998 by the then existing board of directors and its compensation committee. Mr. DiSalvo s retention agreement compensation package was negotiated by Mr. McCarron and approved by our Board. Although the ultimate approval of the named executive officers compensation is made by the Board, the Board takes into consideration the recommendations of the Chief Executive Officer in awarding compensation and setting compensation levels.

During our last completed fiscal year, the Board 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. While we may use formal benchmarking and peer group comparables in the future in establishing compensation levels of our named executive officers, for the past three years we have not relied on any formal benchmarking or set compensation levels by reference to any peer group.

Base Salary

The base salary for Mr. McCarron was negotiated by representatives of our Principal Stockholder and approved by our Board. The base salary for Mr. DiSalvo was negotiated by Mr. McCarron and approved by our Board. In approving the compensation, the Board considered a number of factors including, but not limited to, the responsibilities of the position, the experience of the individual and the competitive marketplace

for executive talent with similar skill sets and, in the case of Mr. DiSalvo s retention and severance package, his then current base salary.

Bonus

Bonuses for our named executive officers are discretionary and were based on a number of subjective considerations; however, Mr. McCarron was entitled, pursuant to his employment agreement, to a minimum annual cash bonus for 2010 of $500,000. For the last three fiscal years, only Messrs. McCarron and DiSalvo were granted cash bonuses. In setting their cash bonus, the Board considered their overall performance.

Long Term Incentives

There is no set formula for the granting of awards to individual executives or employees. Consistent with our equity incentive plans and past awards, the exercise price of all equity awards granted during the last three fiscal years was equal to the fair market value (closing sale price of our common stock) on the date of grant. During the past three fiscal years, Mr. McCarron was the only named executive officer awarded options. When Mr. McCarron was hired in December 2009, he was granted an initial non-qualified option to purchase 125,000 shares of our common stock (the *Initial Option*) pursuant to our long-term incentive plan (the *1996 Plan*). The 1996 Plan provides for the granting of restricted stock, stock appreciation rights, stock options and other types of awards to key employees of the Company. Under the 1996 Plan, options may be granted at prices equivalent to the market value of the common stock on the date of grant. Options become exercisable in one or more installments on such dates as the Company may determine. Unexercised options will expire on varying dates up to a maximum of ten years from the date of grant. All options granted vest ratably over three years beginning on the first anniversary of the date of grant. The 1996 Plan provides for the issuance of options to purchase up to 8,000,000 shares of common stock. At December 31, 2010, stock options with respect to a total of 1,652,412 shares had been exercised and a total of 5,852,808 shares of common stock were available for future awards under the 1996 Plan. As of December 31, 2010, options to purchase 494,780 shares of common stock were outstanding under the 1996 Plan. No restricted stock, stock appreciation rights or other types of awards have been granted under the 1996 Plan.

The Board s decision to award options to Mr. McCarron was discretionary and made in connection with the determination of his initial compensation package. Pursuant to Mr. McCarron s employment agreement, for years beginning on or after January 1, 2011, he will be eligible to receive an additional annual option or similar equity grant having a fair value targeted at between 25% and 50% of his total annual compensation for the immediately preceding year, subject to the sole discretion of the Board (including the discretion to grant awards higher than the targeted amount).

The Board may decide to grant additional awards to Mr. McCarron or future named executive officers and, when doing so, may consider factors such as:

- the executive s overall compensation package and job performance, and
- an executive s ability to contribute to the achievement of our goals and objectives.

Perquisites

Pension Plan. In 2005, our Board authorized a freeze of the Harbinger Group Inc. Pension Plan so that individuals first employed after January 15, 2006 are not eligible to participate in the pension plan and no further benefits accrue for existing participants. Of our named executive officers, only Leonard DiSalvo was eligible to participate in the pension plan and he accrued no further benefits after January 15, 2006.

Benefits under the pension plan are based on employees years of service and compensation level. All of the costs of the pension plan are borne by us. The Plan s participants are 100% vested in the accrued benefit after five years of service.

401(k) Plan. We sponsor a 401(k) Retirement Savings Plan (the *401(k) Plan*) in which eligible participants may defer a fixed amount or a percentage of their eligible compensation, subject to limitations.

Table of Contents

We make discretionary matching contributions of up to 4% of eligible compensation. Mr. McCarron was not eligible to participate in our 401(k) Plan in 2009. Our matches under the 401(k) Plan were: for Mr. McCarron, $9,800 in 2010; for Mr. DiSalvo, $9,200 in 2008, $9,800 in 2009 and $8,486 in 2010. Mr. Falcone does not participate in our 401(k) Plan.

Senior Executive Health Plan. In 2006, the Board established the HGI Corporation Senior Executive Retiree Health Care Benefit Plan to provide health and medical benefits for former senior executive officers at the discretion of the Board. These health insurance benefits were to be consistent with HGI s benefits available to current employees. There are no current participants in this plan.

Deferred Compensation Arrangements. We do not currently have any deferred compensation arrangements or plans.

Other. We continue to provide benefits to the surviving spouse of former HGI Chairman, B. John Mackin, under the terms of a Consulting and Retirement Agreement dated August 27, 1981. Mr. Mackin retired as an employee of HGI in 1985. The agreement provides for health and dental benefits and annual retirement income of $112,500 to Mr. Mackin s widow for the remainder of her life. This amount represents half of the $225,000 per annum that was paid to Mr. Mackin prior to his death in 2003.

Risk Review

Our Board has generally reviewed, analyzed and discussed our executive compensation. Our Board does not believe that any aspects of our executive compensation encourages the named executive officers to take unnecessary or excessive risks. There is no single performance measure for executive compensation, and Mr. McCarron s elements of compensation are balanced among current cash payments, deferred cash bonus potential and an equity award.

Compensation in Connection with Termination of Employment and Change-In-Control

We do not maintain any programs of broad application specifically designed to provide compensation in connection with the termination of employment or a change in control of the Company. We believe that creating sustainable growth and long-term stockholder value is best served by encouraging the attraction and retention of high quality executive officers through performance-based incentives without overemphasizing compensation at terminal events, such as termination or change in control.

Nonetheless, we recognize that an appropriate incentive in attracting talent is to provide reasonable protection against loss of income in the event the employment relationship terminates without fault of the employee. Thus, compensation practices in connection with termination of employment generally will be designed on a case-by-case basis as our Board deems appropriate to achieve our goal of attracting highly-qualified executive talent. We have provided for termination compensation through individual employment agreements in the form of salary and benefit continuation for a moderate period of time following involuntary termination of an executive officer s employment. We have also agreed to individual severance arrangements at the time of termination of employment, taking into account the specific facts and circumstances surrounding termination, including other compensation available at such time.

You can find additional information regarding our practices in providing compensation in connection with termination of employment and change in control under the headings *Employment Agreements with Named Executive Officers* and *Payments upon Termination and Change in Control* below.

Table of Contents

COMPENSATION AND BENEFITS

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, President 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. These individuals are also referred to in this Registration Statement as our named executive officers.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Changes in Pension Value and Non-Qualified Deferred Compensation Earnings ($)(1)	All Other Compensation ($)	Total ($)
Philip A. Falcone	2010	(2)							
Chairman of the Board, President and Chief Executive Officer	2009	(2)							
Francis T. McCarron	2010	500,000	1,250,000(3)					9,800(4)	1,759,800
Executive Vice President and Chief Financial Officer	2009	15,070			329,361(5)				344,431
Leonard DiSalvo	2010	111,557(6)	(7)					192,939(8)	304,496
Former Vice	2009	245,000	63,000				30,495	9,800(4)	348,295
President-Finance	2008	230,936	65,769				3,470	9,200(4)	309,375

(1) The Harbinger Group Inc. 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, President 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 of directors 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.

(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 the 401(k) plan.

Table of Contents

Employment Agreements with Named Executive Officers

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 and is not a party to an employment agreement with HGI. We have an employment agreement with Mr. McCarron and a consulting agreement with Mr. DiSalvo, our former Vice President Finance. We also have indemnification agreements with each of our named executive officers.

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 Option to purchase 125,000 shares of our common stock pursuant to the 1996 Plan. The Initial Option vests 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 ($7.01). 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 (including the discretion to grant awards higher than the targeted amount).

For payments made to Mr. McCarron on termination of his employment, see the below section entitled *Payments Upon Termination And Change Of Control Termination Payments to Francis T. McCarron.*

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 pursuant to that agreement. 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 Consolidated Omnibus Budget Reconciliation Act (*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 the 1996 Plan, except that for purposes of these options, Mr. DiSalvo s employment was deemed to terminate on August 31, 2010.

Grants of Plan-Based Awards

We did not grant any plan-based awards for the year ended December 31, 2010.

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	8/31/2011(5)				
	160,000(4)			6.813	8/31/2011(5)				

(1) The exercise price of all equity awards is equal to the fair market value (closing sale 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.

Option Exercises and Stock Vested

No named executive officers exercised stock options during the year ended December 31, 2010. Additionally, there are no stock awards outstanding for our named executive officers.

Pension Benefits

In 2005, our Board authorized a plan to freeze 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. Benefits under that the plan are based on employees years of service and compensation level. All of the costs of this plan are borne by us. The pension plan s participants were 100% vested in the accrued benefit after five years of service.

The following table provides information about benefits under the pension plan for each of our named executive officers:

Name	Plan Name	Number of Years Credited Services (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
Philip A. Falcone				
Francis T. McCarron				
Leonard DiSalvo	Harbinger Group Inc. Pension Plan	7(1)	176,003	

(1) The pension plan was frozen in 2005, thereby freezing the number of years of credited service for Mr. DiSalvo.

Table of Contents

Nonqualified Deferred Compensation

The Company does not provide any nonqualified defined contribution or other deferred compensation plans.

Payments Upon Termination and Change of Control

Mr. McCarron is entitled to certain payments if his employment is terminated, as detailed below.

Termination Payments to Francis T. McCarron

Pursuant to his employment agreement, 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 COBRA or required under the terms of HGI s plans described above.

If Mr. McCarron s employment had been terminated by us without cause, or by him for Good Reason, as defined below, at any time on or prior to December 31, 2010, he would have been entitled to the continuation of his base salary until December 31, 2010 and his Initial Option to purchase 125,000 shares of our common stock would have become fully vested. In addition, he would have been entitled to his annual bonus for 2010, in an amount equal to the greater of $500,000 or the bonus earned for the year based upon the actual attainment of the performance goals, as pro-rated for the number of days Mr. McCarron was employed in 2010. If the Company terminates Mr. McCarron without Cause or Mr. McCarron terminates his employment for Good Reason 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 the Initial Option. Mr. McCarron s entitlement to these payments is conditioned upon his execution of an agreement acceptable to us that (a) waives any rights Mr. McCarron may otherwise have against us, (b) releases us from actions, suits, claims, proceedings and demands related to the period of employment and/or the termination of employment, and (c) contains certain other obligations which shall be set forth at the time of the termination; provided, however, that any such waiver and release shall not include a waiver or release of Mr. McCarron s rights (a) arising under, or preserved by, his employment agreement, (b) to continued coverage under our directors and officers insurance policies, (c) to indemnification pursuant to Mr. McCarron s indemnification agreement, or (d) as a stockholder of the Company. Mr. McCarron must sign and tender the release as described above not later than 60 days following his last day of employment and, if he fails or refuses to do so, he will forfeit the right to such termination compensation as would otherwise be due and payable.

Good Reason is defined in Mr. McCarron s employment agreement as 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.

Summary Table

The following table sets forth amounts of compensation to be paid to Mr. McCarron if his employment is terminated without Cause or for Good Reason. The amounts shown assume that such termination was effective as of December 31, 2010.

Name	Severance Payments ($)	Non-qualified Defined Contribution Plan ($)	Pension Benefit ($)	Health Welfare and Life Insurance Benefits ($)	Executive Level Outplacement Service ($)	Total ($)
Francis T. McCarron	1,250,000(1)					1,250,000

(1) Mr. McCarron s employment agreement provides that he will be entitled to his annual bonus for 2010, in an amount equal to the greater of $500,000 or the bonus earned for the year based upon the actual attainment of the performance goals, as pro-rated for the number of days Mr. McCarron was employed in 2010. In 2011, the Board set Mr. McCarron s cash bonus amount for 2010 at $1,250,000.

Director Compensation

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 on which a director served or $2,000 per meeting for each standing committee of the Board 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. Messrs. Falcone, Hladek and Jenson are employees of the Harbinger Parties (or an affiliate) and do not receive any compensation for their services as directors. Mr. Clark, a former employee of the Harbinger Parties (or an affiliate) did not receive any compensation for his services as a director during 2010.

In 2010, the Board formed several special committees to consider proposed transactions. Messrs. Chan, Hudgins and Leffler served on each special committee. Mr. Chan acted as Chairman of the special committee and for this service was paid $25,000 per calendar month during which the special committee was in existence and a fee of $1,500 per meeting. Messrs. Hudgins and Leffler were paid $10,000 per calendar month during which the special committee was in existence, and a fee of $1,500 per meeting.

Director Compensation Table

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. There are no individuals who were directors at any time during 2010 but are not currently directors.

Fees Earned or Paid	Stock	Option	Non-Equity	Nonqualified Deferred	All Other

Name	in Cash ($)(1)	Awards ($)	Awards ($)	Incentive Plan Compensation ($)	Compensation Earnings	Compensation ($)	Total ($)
Lap W. Chan	239,321						239,321
Lawrence M. Clark, Jr.							
Keith M. Hladek							
Thomas Hudgins	156,429						156,429
Peter A. Jenson							
Robert V. Leffler	143,429						143,429

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

As stated above, during fiscal year 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 was responsible for determining compensation for our directors and executive officers. Two of our directors, Messrs. Falcone and Jenson, also serve as our executive officers and participated in deliberations concerning executive officer compensation. Messrs. Falcone and Jenson are also directors and executive officers of our subsidiary, Zap.Com. However, neither Mr. Falcone nor Mr. Jenson receive any compensation for their services as officers or directors of HGI.

None of our executive officers served during fiscal year 2010 or currently serves, and we anticipate that none will serve, as a member of the board or compensation committee of any entity (other than the Company and its subsidiary, Zap.Com, as discussed above) that has one or more executive officers that serves as a director on our Board.

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. Harbinger Capital is also the employer of Messrs. Falcone, Jenson and Hladek, who are directors and, in the case of Messrs. Falcone and Jenson, officers of HGI. We have agreed to reimburse Harbinger Capital for (1) 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 (2) 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. No fees were paid to Harbinger Capital under the Management Agreement in 2010. However, HGI did reimburse the Master Fund for certain out-of-pocket expenses relating to the Fidelity & Guaranty Acquisition pursuant to the Transfer 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 Exchange Agreement, HGI entered into a registration rights agreement (the Registration Rights Agreement) with the Harbinger Parties. Pursuant to the Registration Rights Agreement, the Harbinger Parties 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 September 10, 2010 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 s securities issued in respect of its common stock issued or issuable to any of the Harbinger Parties with respect to those securities described in the preceding clause (i).

Under the Registration Rights Agreement, any of the Harbinger Parties may demand that HGI register all or a portion of such Harbinger Party s HGI 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 Registration Rights Agreement, HGI is not obligated to effect more than three such long-form registrations in the aggregate for all of the Harbinger Parties.

The Registration Rights Agreement also provides that if HGI decides to register 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 Registration Rights 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 of HGI common stock included in the offering.

Transfer Agreement

On March 7, 2011, HGI entered into the Transfer Agreement with the Master Fund, pursuant to which, on March 9, 2011, (i) HGI 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 FS Holdco. In consideration for the interests in Harbinger F&G and FS Holdco, HGI 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 under the F&G Stock Purchase Agreement

Certain Relationships and Related Party Transactions of Spectrum Brands Holdings

A description of certain relationships and related party transactions of Spectrum Brands Holdings is attached as Annex D hereto.

Table of Contents

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.

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 April 26, 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 and Address	Beneficial Ownership	Percent of Class
5% Stockholders		
Harbinger Capital Partners Master Fund I, Ltd.(1)	95,932,068	68.9%
Harbinger Capital Partners Special Situations Fund, L.P.(2)	21,493,161	15.4%
Global Opportunities Breakaway Ltd.(3)	12,434,660	8.9%
Our Directors and Executive Officers Serving at April 26, 2011		
Lap W. Chan		
Lawrence M. Clark, Jr.		
Leonard DiSalvo(4)	260,000	*
Philip A. Falcone(5)	129,859,889	93.3%
Richard H. Hagerup		
Keith M. Hladek(6)		
Thomas Hudgins		
Peter A. Jenson(6)		
Robert V. Leffler, Jr.(7)	8,000	*
Francis T. McCarron(8)	41,667	*
All current directors and executive officers as a group (10 persons)	130,169,556	93.3%

* Indicates less than 1% of our outstanding common stock.

(1) Based solely on a Schedule 13D, Amendment No. 6, filed with the SEC on March 10, 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 Philip A. 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.

(2) Based solely on a Schedule 13D, Amendment No. 6, filed with the SEC on March 10, 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.

(3) Based solely on a Schedule 13D, Amendment No. 6, filed with the SEC on March 10, 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.

(4) Represents 260,000 shares of our common stock issuable under options exercisable within 60 days of April 26, 2011.

(5) Based solely on a Schedule 13D, Amendment No. 6, filed with the SEC on March 10, 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 93.3% of our outstanding common stock, and has shared voting and dispositive power over all such shares. A portion of the shares 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.

(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) Represents 8,000 shares of our common stock issuable under options exercisable within 60 days of April 26, 2011.

(8) Represents 41,667 shares of our common stock issuable under options exercisable within 60 days of April 26, 2011.

Table of Contents

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 June 10, 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.

(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

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

(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.

101

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.

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.

HGI issued the initial notes and will issue the exchange notes under the indenture, dated as of November 15, 2010, between HGI and Wells Fargo Bank, National Association, as trustee (the indenture). 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. The term notes means all notes issued under the indenture, including the initial notes, the exchange notes and any additional 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 are 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.

Principal, Maturity and Interest

HGI issued $350.0 million aggregate principal amount of the notes in the initial notes offering. The notes will mature on November 15, 2015. Interest on the notes will accrue at the rate per annum set forth on the cover of this prospectus. HGI will pay interest on the notes semi-annually in arrears on May 15 and November 15 of each year, commencing on May 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 the Issue Date. 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 and any additional notes would 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. Additional notes cannot be issued under the same CUSIP number unless the additional notes and original notes are fungible for U.S. federal income tax purposes.

Table of Contents

Escrow Arrangements

Pursuant to the terms of the indenture, HGI deposited into an account (the *Account*) the proceeds of the initial notes offering, plus an incremental amount (either in cash or in the form of a letter of credit) sufficient to pay the issue price of the notes, together with Accrued Yield (as defined herein) and interest accrued on the notes from the Issue Date to, but excluding, April 7, 2011 (the day that is five business days after March 31, 2011), pledged to the trustee, for the benefit of the holders of the notes, and invested in Cash Equivalents in which the trustee, for the benefit of the holders of the notes had a valid and perfected first-priority security interest. On January 7, 2011, following the consummation of the Spectrum Brands Acquisition and the satisfaction of the other escrow release conditions, the proceeds of the initial notes offering and the other assets in the Account were released from escrow.

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 .

As of the date of this prospectus, there are no Guarantors.

Ranking

The indebtedness evidenced by the notes will rank equal in right of payment with all future senior Debt of HGI, and will have the benefit of a first-priority security interest in the Collateral as described under Collateral .

As of December 31, 2010, 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 operates as a holding company that owns 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 December 31, 2010, on a pro forma basis, the total liabilities of HGI s Subsidiaries would have been approximately $2.8 billion, including trade payables. 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 are 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 will be dependent upon the profitability of our operating subsidiaries and restrictions imposed by law and contracts.

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 Spectrum 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 Equity Interests in other directly held Subsidiaries;

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 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. Under certain circumstances, the amount of such Debt could be significant.

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 have been effected pursuant to a Security and Pledge Agreement, dated as of January 7, 2011, by and among HGI and the Collateral Agent (the *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 is 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 (as defined below) 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 January 7, 2011, HGI (together with any Guarantors, the *Trustors*) and the Collateral Agent entered into the Collateral Trust Agreement (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) acknowledges and agrees 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*,

107

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 contains 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,

Table of Contents

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.

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 accordance

with DTC procedure, 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) Debt of HGI or any Guarantor constituting Pari-Passu Obligations for which the Authorized Representative of such Debt holders has executed a joinder to the Collateral Trust Agreement as described under the caption Security

Collateral Trust Agreement ; *provided* that, on the date of the Incurrence, after giving effect to the Incurrence and the receipt and application of the proceeds therefrom, (i) the aggregate principal amount of Debt outstanding incurred under this clause (1), together with Debt Incurred under clause (4) (and any Permitted Refinancing Debt Incurred to refinance Debt incurred pursuant to such clauses that is a Pari-Passu Obligation), does not exceed $400.0 million and (ii) the Collateral Coverage Ratio is not less than 2.25 to 1.0 or, to the extent that the Collateral Coverage

Ratio is then required to be not less than 2.5 to 1.0 (including as a result of such incurrence of Debt) pursuant to the proviso set forth under clause (a) of Maintenance of Collateral Coverage , 2.5 to 1.0;

(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) HGI could Incur at least $1.00 of Debt under paragraph (b)(1) under Limitation on Debt and Disqualified Stock , 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 Escrow Conditions).

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 prospectus 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) f 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,

Table of Contents

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 written 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 Waivers Amendments with Consent of Holders, the holders of a majority in principal amount of the outstanding notes may, by written 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 actually 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

(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 provides 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 a responsible officer of the trustee actually 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 requires 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.

Book-Entry, Delivery and Form

Except as described below, we will initially issue the exchange notes in the form of one or more registered exchange notes in global form without coupons (the *global notes*). We will deposit each global note on the date of the closing of the exchange offer with, or on behalf of, DTC in New York, New York, and register the exchange notes in the name of DTC or its nominee, or will leave these notes in the custody of the trustee.

Depository Procedures

The following description of the operations and procedures of The Depository Trust Company (*DTC*), the Euroclear System (*Euroclear*) and Clearstream Banking, S.A. (*Clearstream*) are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. We take no responsibility for these operations and procedures and urge you to contact the system or their participants directly to discuss these matters.

DTC has advised us that it is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the *Participants*) and to facilitate the clearance and settlement of transactions in those securities between the Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers (including the initial purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC s system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the *Indirect Participants*). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests and transfers of ownership interests in each security held by or on behalf of DTC are recorded only on the records of the Participants and Indirect Participants and not on the records of DTC.

DTC has also advised us that, pursuant to procedures established by it:

(1) upon deposit of the global notes, DTC will credit the accounts of the Participants designated by the initial purchasers with portions of the principal amount of the global notes; and

(2) ownership of these interests in the global notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interest in the global notes).

Investors in the global notes who are Participants may hold their interests therein directly through DTC. Investors in the global notes who are not Participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) which are Participants. Investors in the global notes may also hold their interests therein through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants. Investors may also hold interests in the global notes through Participants in the DTC system other than Euroclear and Clearstream. Euroclear and Clearstream will hold interests in the global notes on behalf of their participants through customers securities accounts in their respective names on the books of their respective depositories, which are Euroclear Bank S.A./N.V., as operator of Euroclear, and Citibank, N.A., as operator of Clearstream. All interests in a global note, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems. The laws of some states require that certain Persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a global note to such Persons will be limited to that extent. Because DTC can act only on behalf of the Participants, which in turn act on behalf of the Indirect Participants, the ability of a Person having beneficial interests in a global note to pledge such interests to Persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

Except as described below, owners of interests in the global notes will not have notes registered in their names, will not receive physical delivery of notes in certificated form and will not be considered the registered owners or holders thereof under the indenture for any purpose.

Payments in respect of the principal of, premium on, if any, interest and Special Interest, if any, on, a global note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered holder under the indenture. Under the terms of the indenture, HGI and the trustee will treat the Persons in whose names the notes, including the global notes, are registered as the owners of the notes for the purpose of receiving payments and for all other purposes. Consequently, none of HGI, the trustee or any of their respective agents has or will have any responsibility or liability for:

(1) any aspect of DTC s records or any Participant s or Indirect Participant s records relating to, or payments made on account of, beneficial ownership interest in the global notes or for maintaining, supervising or reviewing any of DTC s records or any Participant s or Indirect Participant s records relating to the beneficial ownership interests in the global notes; or

(2) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised us that its current practice, upon receipt of any payment in respect of securities such as the notes, including principal and interest, is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe that it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of the notes will be governed by standing instructions and customary practices, which will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the trustee or us. Neither we nor the trustee will be liable for any delay by DTC or any of the Participants or the Indirect Participants in identifying the beneficial owners of the notes, and we and the trustee may conclusively rely on, and will be protected in relying on, instructions from DTC or its nominee for all purposes.

Transfers between the Participants will be effected in accordance with DTC s procedures, and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Cross-market transfers between the Participants, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC s rules on behalf of Euroclear or Clearstream, as the case may be, by their respective depositaries; however, such cross-market

transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant global note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

DTC has advised us that it will take any action permitted to be taken by a holder of notes only at the direction of one or more Participants to whose account DTC has credited the interests in the global notes and only in respect of such portion of the aggregate principal amount of the notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the notes, DTC reserves the right to exchange the global notes for legended notes in certificated form, and to distribute such notes to its Participants.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the global notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and may discontinue such procedures at any time. None of HGI, the trustee and any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Exchange of Global Notes for Certificated Notes

A global note is exchangeable for certificated notes if:

(1) DTC notifies us that it is unwilling or unable to continue as depositary for the global notes and a successor depositary is not appointed by HGI within 90 days of the notice; or

(2) an Event of Default has occurred and is continuing and the trustee has received a request from the depositary.

In addition, beneficial interests in a global note may be exchanged for certificated notes upon prior written notice given to the trustee by or on behalf of DTC in accordance with the indenture. In all cases, certificated notes delivered in exchange for any global note or beneficial interests in global notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depositary (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in Notice to Investors, unless that legend is not required by applicable law.

Exchange of Certificated Notes for Global Notes

Certificated notes may not be exchanged for beneficial interests in any global note unless the transferor first delivers to the trustee a written certificate (in the form provided in the indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such notes. See Notice to Investors.

Same Day Settlement and Payment

HGI will make payments in respect of the notes represented by the global notes, including principal, premium, if any, interest and Special Interest, if any, by wire transfer of immediately available funds to the accounts specified by DTC or its nominee. HGI will make all payments of principal, premium, if any, interest and Special Interest, if any, with respect to certificated notes by wire transfer of immediately available funds to the accounts specified by the holders of

the certificated notes or, if no such account is specified, by mailing a check to each such holder s registered address. The notes represented by the global notes are expected to be eligible to trade in DTC s Same-Day Funds Settlement System, and any permitted secondary market trading activity in such notes will, therefore, be required by DTC to be settled in immediately available funds, subject

in all cases to the rules and procedures of DTC and its Participants. We expect that secondary trading in any certificated notes will also be settled in immediately available funds.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a global note from a Participant will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. DTC has advised HGI that cash received in Euroclear or Clearstream as a result of sales of interests in a global note by or through a Euroclear or Clearstream participant to a Participant will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC s settlement date.

Governing Law

The indenture, including any Note Guaranties, and the notes shall be governed by, and construed in accordance with, the laws of the State of New York, without regard to its conflict of laws principles.

Certain Definitions

Accrued Yield means an amount in respect of each $1,000 principal amount of notes that, together with the accrued interest to be paid in a Special Redemption, will provide the holder thereof with the yield to maturity on such note, calculated on the basis of a 360 day year and payable for the actual number of days elapsed from the Issue Date. Yield to maturity means the annual yield to maturity of the notes, calculated based on market convention and as reflected in the pricing term sheet for this offering.

Affiliate means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person. For purposes of this definition, control (including, with correlative meanings, the terms controlling, controlled by and under common control with) with respect to any Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

Asset Sale means any sale, lease, transfer or other disposition of any assets by HGI or any Guarantor, including by means of a merger, consolidation or similar transaction and including any sale by HGI or any Guarantor of the Equity Interests of any Subsidiary (each of the above referred to as a *disposition*), *provided* that the following are not included in the definition of Asset Sale :

(1) a disposition to HGI or a Guarantor, including the sale or issuance by HGI or any Guarantor of any Equity Interests of any Subsidiary to HGI or any Guarantor;

(2) the disposition by HGI or any Guarantor in the ordinary course of business of (i) Cash Equivalents and cash management investments, (ii) damaged, worn out or obsolete assets, (iii) rights granted to others pursuant to leases or licenses, or (iv) inventory and other assets acquired and held for resale in the ordinary course of business (it being understood that any Equity Interests of any direct Subsidiary of HGI or any Guarantor and the assets of an operating business, unit, division or line of business shall not constitute inventory or other assets acquired and held for resale in the ordinary course of business);

(3) the sale or discount of accounts receivable arising in the ordinary course of business;

(4) a transaction covered by Consolidation, Merger or Sale of Assets HGI ;

(5) a Restricted Payment permitted under Limitation on Restricted Payments ;

(6) the issuance of Disqualified Equity Interests pursuant to Limitation on Debt and Disqualified Stock ;

(7) any disposition in a transaction or series of related transactions of assets with a fair market value of less than $5.0 million;

(8) any disposition of Equity Interests of a Subsidiary pursuant to an agreement or other obligation with or to a Person from whom such Subsidiary was acquired or from whom such Subsidiary acquired its business and assets (having been newly formed in connection with such acquisition), made as part of such acquisition and in each case comprising all or a portion of the consideration in respect of such sale or acquisition;

(9) any surrender or waiver of contract rights pursuant to a settlement, release, recovery on or surrender of contract, tort or other claims of any kind;

(10) foreclosure or any similar action with respect to any property or other asset of HGI or any of its Subsidiaries;

(11) dispositions in connection with Permitted Liens; and

(12) dispositions of marketable securities, other than shares of Spectrum common stock, constituting less than 5% of the Total Assets; *provided* that such disposition is at fair market value and the consideration consists of Cash Equivalents.

Attributable Debt means, in respect of a Sale and Leaseback Transaction, at the time of determination, the present value, discounted at the interest rate implicit in the Sale and Leaseback Transaction determined in accordance with GAAP, of the total obligations of the lessee for rental payments during the remaining term of the lease in the Sale and Leaseback Transaction.

Average Life means, with respect to any Debt or Disqualified Equity Interests, the quotient obtained by dividing (i) the sum of the products of (x) the number of years from the date of determination to the dates of each successive scheduled principal payment of such Debt or such redemption or similar payment with respect to such Disqualified Equity Interests and (y) the amount of such principal, or redemption or similar payment by (ii) the sum of all such principal, or redemption or similar payments.

Beneficial Owner has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular person (as that term is used in Section 13(d)(3) of the Exchange Act), such person shall be deemed to have beneficial ownership of all securities that such person has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition. The terms *Beneficially Owns* and *Beneficially Owned* shall have a corresponding meaning.

Board of Directors means:

(1) with respect to a corporation, the board of directors of the corporation or, except with respect to the definition of Change of Control, any duly authorized committee thereof having the authority of the full board with respect to the determination to be made;

(2) with respect to a limited liability company, any managing member thereof or, if managed by managers, the board of managers thereof, or any duly authorized committee thereof having the authority of the full board with respect to the determination to be made;

(3) with respect to a partnership, the Board of Directors of the general partner of the partnership; and

(4) with respect to any other Person, the board or committee of such Person serving a similar function.

Capital Lease means, with respect to any Person, any lease of any property which, in conformity with GAAP, is required to be capitalized on the balance sheet of such Person.

Capital Stock means, with respect to any Person, any and all shares of stock of a corporation, partnership interests or other equivalent interests (however designated, whether voting or non-voting) in such Person s equity, entitling the holder to receive a share of the profits and losses, and a distribution of assets, after liabilities, of such Person.

Cash Collateral Coverage Ratio means, on any date of determination, the ratio of (i) the Fair Market Value of the Collateral (but only to the extent the notes are secured by a first-priority Lien pursuant to the Security Agreements on such Collateral that is subject to no prior Liens) consisting of Cash Equivalents to (ii) the principal amount of Debt secured by Liens on the Collateral outstanding on such date.

Cash Equivalents means

(1) United States dollars, or money in other currencies received in the ordinary course of business;

(2) U.S. Government Obligations or certificates representing an ownership interest in U.S. Government Obligations with maturities not exceeding one year from the date of acquisition;

(3) (i) demand deposits, (ii) time deposits and certificates of deposit with maturities of one year or less from the date of acquisition, (iii) bankers acceptances with maturities not exceeding one year from the date of acquisition, and (iv) overnight bank deposits, in each case with any bank or trust company organized or licensed under the laws of the United States or any state thereof having capital, surplus and undivided profits in excess of $500 million whose short-term debt is rated A-2 or higher by S&P or P-2 or higher by Moody s;

(4) repurchase obligations with a term of not more than seven days for underlying securities of the type described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above;

(5) commercial paper rated at least P-1 by Moody s or A-1 by S&P and maturing within six months after the date of acquisition; and

(6) money market funds at least 95% of the assets of which consist of investments of the type described in clauses (1) through (5) above.

Change of Control means the occurrence of any of the following:

(1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of HGI and its Subsidiaries, taken as a whole, to any person (as that term is used in Section 13(d)(3) of the Exchange Act) other than a Permitted Holder;

(2) the adoption of a plan relating to the liquidation or dissolution of HGI;

(3) any person or group (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) becomes the ultimate Beneficial Owner, directly or indirectly, of 35% or more of the voting power of the Voting Stock of HGI other than a Permitted Holder; *provided* that such event shall not be deemed a Change of Control so long as one or more Permitted Holders shall Beneficially Own more of the voting power of the Voting Stock of HGI than such person or group;

(4) the first day on which a majority of the members of the Board of Directors of HGI are not Continuing Directors;

For purposes of this definition, (i) any direct or indirect holding company of HGI shall not itself be considered a Person for purposes of clauses (1) or (3) above or a person or group for purposes of clauses (1) or (3) above, *provided* that no person or group (other than the Permitted Holders or another such holding company) Beneficially Owns, directly or indirectly, more than 50% of the voting power of the Voting Stock of such company, and a majority of the

Voting Stock of such holding company immediately following it becoming the holding company of HGI is Beneficially Owned by the Persons who Beneficially Owned the voting power of the Voting Stock of HGI immediately prior to it becoming such holding company and (ii) a Person shall not be deemed to have beneficial ownership of securities subject to a stock purchase agreement, merger agreement or similar agreement until the consummation of the transactions contemplated by such agreement.

Change of Control Offer has the meaning assigned to that term in the indenture governing the notes.

Collateral Agent means Wells Fargo Bank, National Association, in its capacity as the Collateral Agent, or any collateral agent appointed pursuant to the Collateral Trust Agreement.

Collateral Coverage Ratio means, at the date of determination, the ratio of (i) the Fair Market Value of the Collateral (but only to the extent the notes are secured by a first-priority Lien on such Collateral pursuant to the Security Agreements that is subject to no prior Lien) to (ii) the principal amount of Debt secured by Liens on the Collateral outstanding on such date.

Collateral Trust Agreement means the collateral trust agreement dated as of the Issue Date among HGI, the Collateral Agent and the trustee, as amended from time to time.

Consolidated Net Income means, for any period, the aggregate net income (or loss) of HGI and its Subsidiaries for such period determined on a consolidated basis in conformity with GAAP, *provided* that the following (without duplication) will be excluded in computing Consolidated Net Income:

(1) the net income (or loss) of any Person that is not a Guarantor, except that net income shall be included to the extent of the dividends or other distributions actually paid in cash to HGI or any of the Guarantors by such Person during such period;

(2) any net income (or loss) of any Person acquired in a pooling of interests transaction for any period prior to the date of such acquisition;

(3) any net after-tax gains or losses attributable to or associated with the extinguishment of Debt or Hedging Agreements;

(4) the cumulative effect of a change in accounting principles;

(5) any non-cash expense realized or resulting from stock option plans, employee benefit plans or post-employment benefit plans, or grants or sales of stock, stock appreciation or similar rights, stock options, restricted stock, preferred stock or other rights;

(6) to the extent covered by insurance and actually reimbursed, or, so long as such Person has made a determination that there exists reasonable evidence that such amount will in fact be reimbursed by the insurer and only to the extent that such amount is (a) not denied by the applicable carrier in writing within 180 days and (b) in fact reimbursed within 365 days of the date of such evidence (with a deduction for any amount so added back to the extent not so reimbursed within 365 days), expenses with respect to liability or casualty events or business interruption;

(7) any expenses or charges related to any issuance of Equity Interests, acquisition, disposition, recapitalization or issuance, repayment, refinancing, amendment or modification of Debt (including amortization or write offs of debt issuance or deferred financing costs, premiums and prepayment penalties), in each case, whether or not successful, including any such expenses or charges attributable to the issuance and sale of the notes and the consummation of the exchange offer pursuant to the Registration Rights Agreement; and

(8) any expenses or reserves for liabilities to the extent that HGI or any Subsidiary is entitled to indemnification therefor under binding agreements; *provided* that any liabilities for which HGI or such Subsidiary is not actually indemnified shall reduce Consolidated Net Income in the period in which it is determined that HGI or such Subsidiary will not be indemnified.

Continuing Directors means, as of any date of determination, any member of the Board of Directors of HGI who:

(1) was a member of such Board of Directors on the Issue Date or

(2) was nominated for election or elected to such Board of Directors with the approval of the Permitted Holders or a majority of the Continuing Directors who were members of such Board of Directors at the time of such nomination or election.

Contribution Debt means Debt or Disqualified Equity Interests of HGI or any Guarantor with a Stated Maturity after the Stated Maturity of the notes in an aggregate principal amount or liquidation preference not greater than (i) half (in the case of Debt referred to in clause (1) below) and (ii) twice (in the case of unsecured Debt or Disqualified Equity Interests), the aggregate amount of cash received from the issuance and sale of Qualified Equity Interests of HGI or a capital contribution to the common equity of HGI; *provided that*:

(1) Contribution Debt may be secured by Liens on the Collateral (*provided* that no such Contribution Debt may be so secured unless, on the date of the Incurrence, after giving effect to the Incurrence and the receipt and application of the proceeds therefrom, (x) the aggregate principal amount of Debt outstanding and incurred under this clause (1), together with other Pari-Passu Obligations (including the notes) does not exceed $500.0 million and (y) 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 Incurrence date was a date on which such covenant is required to be tested under Maintenance of Collateral Coverage));

(2) such cash has not been used to make a Restricted Payment and shall thereafter be excluded from any calculation under paragraph (a)(3)(B) under Limitation on Restricted Payments (it being understood that if any such Debt or Disqualified Stock Incurred as Contribution Debt is redesignated as Incurred under any provision other than paragraph (b)(13) of the Limitation on Debt covenant, the related issuance of Equity Interests may be included in any calculation under paragraph (a)(3)(B) in the Limitation on Restricted Payments covenant); and

(3) such Contribution Debt (a) is Incurred within 180 days after the making of such cash contributions and (b) is so designated as Contribution Debt pursuant to an officers certificate on the Incurrence date thereof.

Any cash received from the issuance and sale of Qualified Equity Interests of HGI or a capital contribution to the common equity of HGI may only be applied to incur secured Debt pursuant to clause (i) of the first paragraph above or unsecured Debt or Disqualified Equity Interests pursuant to clause (ii) of such paragraph. For example, if HGI issues Qualified Equity Interests and receives $100 of cash proceeds, HGI may either incur $50 of secured Debt (subject to the conditions set forth in such clause (i)) or $200 of unsecured Debt or Disqualified Equity Interests, but may not incur $50 of secured Debt and $150 of unsecured Debt.

Debt means, with respect to any Person, without duplication,

(1) all indebtedness of such Person for borrowed money;

(2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all obligations of such Person in respect of letters of credit, bankers acceptances or other similar instruments, excluding obligations in respect of trade letters of credit or bankers acceptances issued in respect of trade payables;

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services which would have been recorded as liabilities under GAAP, excluding trade payables arising in the ordinary course of business;

(5) all obligations of such Person as lessee under Capital Leases (other than the interest component thereof);

(6) all Debt of other Persons Guaranteed by such Person to the extent so Guaranteed;

(7) all Debt of other Persons secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person;

(8) all obligations of such Person under Hedging Agreements; and

(9) all Disqualified Equity Interests of such Person;

provided, *however*, that notwithstanding the foregoing, Debt shall be deemed not to include (1) deferred or prepaid revenues or (2) any liability for federal, state, local or other taxes owed or owing to any governmental entity.

The amount of Debt of any Person will be deemed to be:

(A) with respect to contingent obligations, the maximum liability upon the occurrence of the contingency giving rise to the obligation;

(B) with respect to Debt secured by a Lien on an asset of such Person but not otherwise the obligation, contingent or otherwise, of such Person, the lesser of (x) the fair market value of such asset on the date the Lien attached and (y) the amount of such Debt;

(C) with respect to any Debt issued with original issue discount, the face amount of such Debt less the remaining unamortized portion of the original issue discount of such Debt;

(D) with respect to any Hedging Agreement, the net amount payable if such Hedging Agreement terminated at that time due to default by such Person; and

(E) otherwise, the outstanding principal amount thereof.

Default means any event that is, or after notice or passage of time or both would be, an Event of Default.

Designated Non-cash Consideration means any non-cash consideration received by HGI or a Guarantor in connection with an Asset Sale that is designated as Designated Non-cash Consideration pursuant to an officers certificate executed by an officer of HGI or such Guarantor at the time of such Asset Sale. Any particular item of Designated Non-cash Consideration will cease to be considered to be outstanding once it has been sold for cash or Cash Equivalents (which shall be considered Net Cash Proceeds of an Asset Sale when received).

Disqualified Equity Interests means Equity Interests that by their terms or upon the happening of any event are:

(1) required to be redeemed or redeemable at the option of the holder prior to the Stated Maturity of the notes for consideration other than Qualified Equity Interests, or

(2) convertible at the option of the holder into Disqualified Equity Interests or exchangeable for Debt;

provided that (i) only the portion of the Equity Interests which is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to the Stated Maturity of the notes shall be deemed to be Disqualified Equity Interests, (ii) if such Equity Interests are issued to any employee or to any plan for the benefit of employees of HGI or its Subsidiaries or by any such plan to such employees, such Equity Interests shall not constitute Disqualified Equity Interests solely because they may be required to be repurchased by HGI in order to satisfy applicable statutory or regulatory obligations or as a result of such employee s termination, death or disability and (iii) Equity Interests will not constitute Disqualified Equity Interests solely because of provisions giving holders thereof the right to require repurchase or redemption upon an asset sale or change of control occurring prior to the Stated Maturity of the notes if those provisions:

(A) are no more favorable to the holders than Limitation on Asset Sales and Repurchase of Notes Upon a Change of Control , and

(B) specifically state that repurchase or redemption pursuant thereto will not be required prior to HGI s repurchase of the notes as required by the indenture. *Disqualified Stock* means Capital Stock constituting Disqualified Equity Interests.

Domestic Subsidiary means any Subsidiary formed under the laws of the United States of America or any jurisdiction thereof.

Equity Interests means all Capital Stock and all warrants or options with respect to, or other rights to purchase, Capital Stock, but excluding Debt convertible into equity.

Equity Offering means a primary offering, whether by way of private placement or registered offering, after the Issue Date, of Qualified Stock of HGI other than an issuance registered on Form S-4 or S-8 or any successor thereto or any issuance pursuant to employee benefit plans or otherwise in compensation to officers, directors or employees.

Exchange Act means the Securities Exchange Act of 1934, as amended.

Excluded Property means

(i) motor vehicles, the perfection of a security interest in which is excluded from the Uniform Commercial Code in the relevant jurisdiction;

(ii) voting Equity Interests in any Foreign Subsidiary, to the extent (but only to the extent) required to prevent the Collateral from including more than 65% of all voting Equity Interests in such Foreign Subsidiary;

(iii) any interest in a joint venture or non-Wholly Owned Subsidiary to the extent and for so long as the attachments of security interest created hereby therein would violate any joint venture agreement, organizational document, shareholders agreement or equivalent agreement relating to such joint venture or Subsidiary;

(iv) any rights of HGI or any Guarantor in any contract or license if under the terms thereof, or any applicable law with respect thereto, the valid grant of a security interest therein to the Collateral Agent is prohibited and such prohibition has not been waived or the consent of the other party to such contract or license has not been obtained or, under applicable law, such prohibition cannot be waived;

(v) certain deposit accounts, the balance of which consists exclusively of (a) withheld income taxes and federal, state, local and foreign employment taxes in such amounts as are required to be paid to the IRS or any other applicable governmental authority and (b) amounts required to be paid over to an employee benefit plan on behalf of or for the benefit of employees of HGI or any Guarantor;

(vi) other property that the Collateral Agent may determine from time to time that the cost of obtaining a Lien thereon exceeds the benefits of obtaining such a Lien (it being understood that the Collateral Agent shall have no obligation to make any such determination);

(vii) any intent-to-use U.S. trademark application to the extent that, and solely during the period in which, the grant of a security interest therein would impair the validity or enforceability of such intent-to-use trademark application or the mark that is the subject of such application under applicable law;

(viii) Equity Interests of Zap.Com Corporation until such time as HGI determines that such Equity Interests should be pledged as Collateral, such determination (which shall be irrevocable) to be made by an officers certificate delivered by HGI to the Collateral Agent; and

(ix) an amount in Cash Equivalents not to exceed $1 million deposited for the purpose of securing, leases of office space, furniture or equipment;

provided however that Excluded Property shall not (i) apply to any contract or license to the extent the applicable prohibition is ineffective or unenforceable under the UCC (including Sections 9-406 through 9-409) or any other applicable law, or (ii) limit, impair or otherwise affect Collateral Agent s unconditional continuing security interest in and Lien upon any rights or interests of HGI or such Guarantor in or to moneys due or to become due under any such contract or license (including any accounts).

Fair Market Value means:

(i) in the case of any Collateral that (a) is listed on a national securities exchange or (b) is actively traded in the over-the-counter-market and represents equity in a Person with a market capitalization of at least $500 million on each trading day in the preceding 60 day period prior to such date, the product of (a) (i) the sum of the volume weighted average prices of a unit of such Collateral for each of the 20 consecutive trading days immediately prior to such date, divided by (ii) 20, multiplied by (b) the number of units pledged as Collateral;

(ii) in the case of any Collateral that is not so listed or actively traded (other than Cash Equivalents), the fair market value thereof (defined as the price that would be negotiated in an arms -length transaction for cash between a willing buyer and willing seller, neither of which is acting under compulsion), as determined by a written opinion of a nationally recognized investment banking, appraisal, accounting or valuation firm that is not an Affiliate of HGI; *provided* that (i) such written opinion may be based on a desktop appraisal conducted by such banking, appraisal, accounting or valuation firm for any date of determination that is not the end of the fiscal year for HGI and (ii) the fair market value thereof determined by such written opinion may be determined as of a date as early as 30 days prior to the end of the applicable fiscal period on which a covenant is required to be tested (the end of such period being referred to as the *Test Date*); and

(iii) in the case of Cash Equivalents, the face value thereof.

The *volume weighted average price* means the per share of common stock (or per minimum denomination or unit size in the case of any security other than common stock) volume-weighted average price as displayed under the heading Bloomberg VWAP on Bloomberg page for the <equity> AQR page corresponding to the ticker for such common stock or unit (or its equivalent successor if such page is not available) in respect of the period from the scheduled open of trading until the scheduled close of trading of the primary trading session on such trading day (or if such volume-weighted average price is unavailable, the market value of one share of such common stock (or per minimum denomination or unit size in the case of any security other than common stock) on such trading day determined, using a volume-weighted average method, by a nationally recognized independent investment banking firm retained for this purpose by the trustee). The volume weighted average price will be determined without regard to after-hours trading or any other trading outside of the regular trading session trading hours.

In the case of any assets referenced in clause (ii) above tested on a date of determination other than in connection with a Test Date, for purposes of calculating compliance with a covenant, HGI will be permitted to rely on the value as determined by the written opinion given for the most recently completed Test Date.

For the avoidance of doubt:

(i) if HGI will be in compliance with an applicable covenant at a Test Date even if an asset constituting Collateral had no value, it shall not be required to obtain an appraisal of such Collateral (in which case such Collateral shall be assumed to have no value for such purpose); and

(ii) if HGI will be in compliance with an applicable covenant at a Test Date if an asset constituting Collateral has a minimum specified value, an appraisal establishing that such Collateral is worth at least such minimum specified value shall be sufficient (in which case such Collateral shall be assumed to have such minimum specified value for such purpose).

Foreign Subsidiary means any Subsidiary that is not a Domestic Subsidiary.

GAAP means generally accepted accounting principles in the United States of America as in effect as of the Issue Date.

Guarantee means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation of such other Person

(whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for purposes of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof, in whole or in part; *provided* that the term Guarantee does not include endorsements for collection or deposit in the ordinary course of business. The term Guarantee used as a verb has a corresponding meaning.

Guarantor means each Subsidiary that executes a supplemental indenture providing for the guaranty of the payment of the notes, or any successor obligor under its Note Guaranty pursuant to Consolidation, Merger or Sale of Assets , in each case unless and until such Guarantor is released from its Note Guaranty pursuant to the indenture.

Hedging Agreement means (i) any interest rate swap agreement, interest rate cap agreement or other agreement designed to manage fluctuations in interest rates or (ii) any foreign exchange forward contract, currency swap agreement or other agreement designed to manage fluctuations in foreign exchange rates.

Incur and *Incurrence* means, with respect to any Debt or Capital Stock, to incur, create, issue, assume or Guarantee such Debt or Capital Stock. If any Person becomes a Guarantor on any date after the date of the indenture, the Debt and Capital Stock of such Person outstanding on such date will be deemed to have been Incurred by such Person on such date for purposes of Limitation on Debt and Disqualified Stock , but will not be considered the sale or issuance of Equity Interests for purposes of Limitation on Asset Sales . The accrual of interest, accretion of original issue discount or payment of interest in kind or the accretion or payment in kind, accumulation of dividends on any Equity Interests, will not be considered an Incurrence of Debt.

Investment means

(1) any direct or indirect advance, loan or other extension of credit to another Person,

(2) any capital contribution to another Person, by means of any transfer of cash or other property or in any other form,

(3) any purchase or acquisition of Equity Interests, bonds, notes or other Debt, or other instruments or securities issued by another Person, including the receipt of any of the above as consideration for the disposition of assets or rendering of services, or

(4) any Guarantee of any obligation of another Person.

Issue Date means the date on which the notes are originally issued under the indenture.

Lien means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or Capital Lease).

Liquid Collateral Coverage Ratio means the ratio of (i) the Fair Market Value of the Collateral (but only to the extent the notes are secured by a first-priority Lien pursuant to the Security Agreements on such Collateral that is subject to no prior Lien) consisting of (a) shares of common stock of Spectrum and (b) Cash Equivalents to (ii) the principal amount of Debt secured by Liens on the Collateral outstanding on such date.

Moody s means Moody s Investors Service, Inc. and its successors.

Net Cash Proceeds means, with respect to any Asset Sale, the proceeds of such Asset Sale in the form of cash (including (i) payments in respect of deferred payment obligations to the extent corresponding to, principal, but not

interest, when received in the form of cash, and (ii) proceeds from the conversion of other consideration received when converted to cash), net of

(1) brokerage commissions, underwriting commissions and other fees and expenses related to such Asset Sale, including fees and expenses of counsel, accountants, consultants and investment bankers;

(2) provisions for taxes as a result of such Asset Sale taking into account the consolidated results of operations of HGI and its Subsidiaries;

(3) payments required to be made to holders of minority interests in Subsidiaries as a result of such Asset Sale or (except in the case of Collateral) to repay Debt outstanding at the time of such Asset Sale that is secured by a Lien on the property or assets sold;

(4) appropriate amounts to be provided as a reserve against liabilities associated with such Asset Sale, including pension and other post-employment benefit liabilities, liabilities related to environmental matters and indemnification obligations associated with such Asset Sale, with any subsequent reduction of the reserve other than by payments made and charged against the reserved amount to be deemed a receipt of cash; and

(5) payments of unassumed liabilities (not constituting Debt) relating to the assets sold at the time of, or within 30 days after the date of, such Asset Sale.

Note Guaranty means the guaranty of the notes by a Guarantor pursuant to the indenture.

Obligations means, with respect to any Debt, all obligations (whether in existence on the Issue Date or arising afterwards, absolute or contingent, direct or indirect) for or in respect of principal (when due, upon acceleration, upon redemption, upon mandatory repayment or repurchase pursuant to a mandatory offer to purchase, or otherwise), premium, interest, penalties, fees, indemnification, reimbursement and other amounts payable and liabilities with respect to such Debt, including all interest accrued or accruing after the commencement of any bankruptcy, insolvency or reorganization or similar case or proceeding at the contract rate (including, without limitation, any contract rate applicable upon default) specified in the relevant documentation, whether or not the claim for such interest is allowed as a claim in such case or proceeding.

Permitted Collateral Liens means: (1) Liens on the Collateral to secure Obligations in respect of the notes (excluding any additional notes); (2) Liens on the Collateral that rank *pari passu* with or junior to the Liens securing the Obligations in respect of the notes and that secure Obligations in respect of Debt (including any additional notes) Incurred pursuant to clause (1) or (13) of the definition of Permitted Debt; (3) Liens to secure any Permitted Refinancing Debt (or successive Permitted Refinancing Debt) as a whole, or in part, of any Obligations secured by any Lien referred to in clauses (1) or (2) of this definition; and (4) Liens on the Collateral of the types described in clauses (4), (5), (6), (13), (14) and (15) of the definition of Permitted Liens.

Permitted Holders means

(1) each of Harbinger Capital Partners Master Fund I, Ltd., Harbinger Capital Partners Special Situations Fund, L.P. and Global Opportunities Breakaway Ltd;

(2) any Affiliate of any Person specified in clause (1), other than another portfolio company thereof (which means a company actively engaged in providing goods and services to unaffiliated customers) or a company controlled by a portfolio company ; or

(3) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned 50% or more by Persons specified in clauses (1) or (2).

Permitted Liens means

(1) Liens existing on the Issue Date not otherwise permitted;

(2) Permitted Collateral Liens;

(3) pledges or deposits under worker s compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts or leases, or to secure public or statutory obligations, surety bonds, customs duties and the like, or for the payment of rent, in each case incurred in the ordinary course of business and not securing Debt;

(4) Liens imposed by law, such as carriers , vendors , warehousemen s and mechanics liens, in each case for sums not yet due or being contested in good faith and by appropriate proceedings;

(5) Liens in respect of taxes and other governmental assessments and charges which are not yet due or which are being contested in good faith and by appropriate proceedings;

(6) Liens incurred in the ordinary course of business not securing Debt and not in the aggregate materially detracting from the value of the properties or their use in the operation of the business of HGI and the Guarantors;

(7) Liens on property of a Person at the time such Person becomes a Guarantor, *provided* such Liens were not created in contemplation thereof and do not extend to any other property of HGI or any other Guarantor;

(8) Liens on property or the Equity Interests of any Person at the time HGI or any Guarantor acquires such property or Person, including any acquisition by means of a merger or consolidation with or into HGI or a Guarantor of such Person, *provided* such Liens were not created in contemplation thereof and do not extend to any other property of HGI or any Guarantor;

(9) Liens securing Debt or other obligations of HGI or a Guarantor to HGI or a Guarantor;

(10) Liens securing Hedging Agreements so long as such Hedging Agreements relate to Debt for borrowed money that is, and is permitted to be under the indenture, secured by a Lien on the same property securing such Hedging Agreements;

(11) extensions, renewals or replacements of any Liens referred to in clauses (1), (7), or (8) in connection with the refinancing of the obligations secured thereby, *provided* that such Lien does not extend to any other property and, except as contemplated by the definition of Permitted Refinancing Debt , the amount secured by such Lien is not increased; and

(12) other Liens (not on the Collateral) securing obligations in an aggregate amount not exceeding $5.0 million;

(13) licenses or leases or subleases as licensor, lessor or sublessor of any of its property, including intellectual property, in the ordinary course of business;

(14) Liens securing office leases and office furniture and equipment in an aggregate amount not to exceed $1 million; and

(15) Liens on property securing Debt permitted pursuant to clause (14) of Limitation on Debt and Disqualified Equity Interests .

Person means an individual, a corporation, a partnership, a limited liability company, an association, a trust or any other entity, including a government or political subdivision or an agency or instrumentality thereof.

Preferred Stock means, with respect to any Person, any and all Capital Stock which is preferred as to the payment of dividends or distributions, upon liquidation or otherwise, over another class of Capital Stock of such Person.

Qualified Equity Interests means all Equity Interests of a Person other than Disqualified Equity Interests.

Qualified Stock means all Capital Stock of a Person other than Disqualified Stock.

Registration Rights Agreement means the Registration Rights Agreement, dated as of the Issue Date, by and among HGI and the initial purchasers.

S&P means Standard & Poor s Ratings Group, a division of McGraw Hill, Inc. and its successors.

Sale and Leaseback Transaction means, with respect to any Person, an arrangement whereby such Person enters into a lease of property previously transferred by such Person to the lessor.

Security Documents means (i) the Security and Pledge Agreement, (ii) the Collateral Trust Agreement and (iii) the security documents granting a security interest in any assets of any Person to secure the

Obligations under the notes and the Note Guarantees, as each may be amended, restated, supplemented or otherwise modified from time to time.

Significant Subsidiary means any Subsidiary, or group of Subsidiaries, that would , taken together, be a significant subsidiary as defined in Article 1, Rule 1-02 (w)(1) or (2) of Regulation S-X promulgated under the Securities Act, as such regulation is in effect on the Issue Date.

Stated Maturity means (i) with respect to any Debt, the date specified as the fixed date on which the final installment of principal of such Debt is due and payable or (ii) with respect to any scheduled installment of principal of or interest on any Debt, the date specified as the fixed date on which such installment is due and payable as set forth in the documentation governing such Debt, not including any contingent obligation to repay, redeem or repurchase prior to the regularly scheduled date for payment.

Subordinated Debt means any Debt of HGI or any Guarantor which (i) is subordinated in right of payment to the notes or the Note Guaranty, as applicable, pursuant to a written agreement to that effect or (ii) is unsecured.

Subsidiary means with respect to any Person, any corporation, association or other business entity of which more than 50% of the outstanding Voting Stock is owned, directly or indirectly, by, or, in the case of a partnership, the sole general partner or the managing partner or the only general partners of which are, such Person and one or more Subsidiaries of such Person (or a combination thereof). Unless otherwise specified, Subsidiary means a Subsidiary of HGI.

Total Assets means the total assets of HGI and its Subsidiaries on a consolidated basis, as shown on the most recent balance sheet of HGI.

U.S. Government Obligations means obligations issued or directly and fully guaranteed or insured by the United States of America or by any agent or instrumentality thereof, *provided* that the full faith and credit of the United States of America is pledged in support thereof.

Voting Stock means, with respect to any Person, Capital Stock of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

Wholly Owned means, with respect to any Subsidiary, a Subsidiary all of the outstanding Capital Stock of which (other than any director s qualifying shares) is owned by HGI and one or more Wholly Owned Subsidiaries (or a combination thereof).

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

Table of Contents

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 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 Optional Redemption, 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 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 these contingencies 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 original issue discount otherwise includible 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.

Interest

Absent an election to the contrary (see Original Issue Discount Election to treat all interest as original issue discount, below), 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.

Original Issue Discount

Because the initial notes were issued with original issue discount for U.S. federal income tax purposes (OID), the exchange notes should be treated as having been issued with OID. The following is a summary of the OID rules and their application to the exchange notes.

A United States Holder will be required to include OID in gross income (as ordinary income) for U.S. federal income tax purposes as it accrues (regardless of its method of accounting for U.S. federal income tax purposes), which may be in advance of receipt of the cash attributable to that income. OID accrues under the constant-yield method, based on a compounded yield to maturity, as described below. Accordingly, a United States Holder will be required to include in income increasingly greater amounts of OID in successive accrual periods, unless the accrual periods vary in length (as described below).

The amount of OID a United States Holder must include in income each taxable year will equal the sum of the daily portions of the OID with respect to an exchange note for all days on which such holder owns the exchange note during the taxable year. A United States Holder determines the daily portions of OID by allocating to each day in an accrual period the pro rata portion of the OID that is allocable to that accrual period. The term accrual period means an interval of time with respect to which the accrual of OID 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.

The amount of OID allocable to an accrual period will be the excess, if any, of:

- the product of the adjusted issue price of the exchange note at the beginning of the accrual period and its yield to maturity, over

- the aggregate amount of any QSI allocable to the accrual period.

All of the stated interest on the exchange notes should constitute QSI. The adjusted issue price of an exchange note at the beginning of the first accrual period is its issue price, and, on any day thereafter, it is the sum of the issue price and the amount of OID previously included in gross income, reduced by the amount of any payment (other than a payment of QSI) previously made on the exchange note. If an interval between payments of QSI on an exchange note contains more than one accrual period, then, when a United States Holder determines the amount of OID allocable to an accrual period, such holder must allocate the amount of QSI payable at the end of the interval, including any QSI that

is payable on the first day of the accrual period immediately following the interval, pro rata to each accrual period in the interval based on their relative lengths. In addition, a United States Holder must increase the adjusted issue price at the beginning of each accrual period in the interval by the amount of any QSI that has accrued prior to the first day of the accrual period but that is not payable until the end of the interval. If all accrual periods are of equal length except for a shorter initial and/or final accrual period, a United States Holder can compute the amount of OID allocable

Table of Contents

to the initial period using any reasonable method; however, the OID allocable to the final accrual period will always be the difference between the amount payable at maturity (other than a payment of QSI) and the adjusted issue price at the beginning of the final accrual period.

Election to treat all interest as original issue discount. A United States Holder may elect to include in gross income all interest that accrues on its exchange note using the constant-yield method described above, with the modifications described below.

If a United States Holder makes this election for its exchange note, then, when such holder applies the constant-yield method:

- the issue price of the exchange note will equal such holder s initial basis in the exchange note,
- the issue date of the exchange note will be the date such holder acquired the initial note, and
- no payments on the exchange note will be treated as payments of QSI.

This election will apply only to the exchange note for which such election is made by a United States Holder; however, if the exchange note has bond premium (described below under Market Discount, Acquisition Premium and Bond Premium Bond Premium), a United States Holder will be deemed to have made an election 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 such holder 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 below 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 you 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.

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, increased by the amount of any OID previously accrued on the initial note (without regard to the amortization of any acquisition premium). 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 qualified stated interest). 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 above in Original Issue Discount Election to treat all interest as OID 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 (other than qualified stated interest) payable on the initial note after the purchase date 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 Original Issue Discount above), 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 qualified stated interest) 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 its principal amount, 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. Such holder may elect to amortize bond premium over the remaining term of the exchange note on a constant yield method. In such case, such holder will reduce the amount required to be included in income each year with respect to interest on such holder s exchange note by the amount of amortizable bond premium allocable to that year. The election, once made, is irrevocable without the consent of the IRS and applies to all taxable bonds held during the taxable year for which the election is made or subsequently acquired. If such holder elected to amortize bond premium on an initial note, such election should carry over to the exchange note received in exchange therefor. If such holder does not make this election, such holder will be required to include in gross income the full amount of interest on the exchange note in accordance with such holder s regular method of tax accounting, and will include the premium in such holder s tax basis for the exchange note for purposes of computing the amount of such holder s gain or loss recognized on the taxable disposition of the exchange note. United States Holders should consult their own tax advisors concerning the computation and amortization of any bond premium on the exchange note.

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 OID and market discount previously included in gross income and reduced (but not below zero) by amortized bond premium and payments, if any, such holder previously received other than QSI 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 and accruals of OID 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, accruals of OID on the exchange notes and the proceeds of disposition (including a retirement or redemption of an exchange note). 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 accrued OID) 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 payments of interest and accruals of OID during the taxable year. 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 competed 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.

PLAN OF DISTRIBUTION

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer in exchange for initial notes acquired by such broker-dealer as a result of market making or other trading activities may be deemed to be an underwriter within the meaning of the Securities Act and, therefore, must deliver a prospectus meeting the requirements of the Securities Act in connection with any resales, offers to resell or other transfers of the exchange notes received by it in connection with the exchange offer. Accordingly, each such broker-dealer must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of such exchange notes. The letter of transmittal states that by acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for initial notes where such initial notes were acquired as a result of market-making activities or other trading activities. We have agreed that, for a period of 90 days after the expiration of the exchange offer, we will make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale.

We will not receive any proceeds from any sale of exchange notes by broker-dealers. Exchange notes received by broker-dealers for their own account pursuant to the exchange offer may be sold from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the exchange notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to such prevailing market prices or negotiated prices. Any such resale may be made directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any such broker-dealer and/or the purchasers of any such exchange notes. Any broker-dealer that resells exchange notes that were received by it for its own account pursuant to the exchange offer and any broker or dealer that participates in a distribution of such exchange notes may be deemed to be an underwriter within the meaning of the Securities Act and any profit of any such resale of exchange notes and any commissions or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. The letter of transmittal states that by

acknowledging

that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports and other information with the SEC in accordance with the requirements of the Exchange Act. You may read and copy any document we file with the SEC at the SEC s Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. Copies of these reports, proxy statements and information may be obtained at prescribed rates from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. In addition, the SEC maintains a web site that contains reports, proxy statements and other information regarding registrants, such as us, that file electronically with the SEC. The address of this web site is http://www.sec.gov.

Anyone who receives a copy of this prospectus may obtain a copy of the indenture without charge by writing to Harbinger Group Inc., Attn.: Chief Financial Officer, 450 Park Avenue, 27th Floor, New York, NY 10022.

LEGAL MATTERS

Paul, Weiss, Rifkind, Wharton & Garrison LLP, New York, New York, will opine that the exchange notes are binding obligations of the registrant.

EXPERTS

The consolidated balance sheet of HGI as of December 31, 2010, and the related consolidated statements of operations, changes in equity and comprehensive income (loss), and cash flows for the year ended December 31, 2010, and the effectiveness of internal control over financial reporting as of December 31, 2010, have been included in this registration statement and prospectus in reliance upon the reports of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

The consolidated balance sheet of HGI as of December 31, 2009, and the related consolidated statements of operations, changes in equity and comprehensive income (loss), and cash flows for each of the two years in the period ended December 31, 2009, included elsewhere in this prospectus, have been audited by Deloitte & Touche LLP, independent registered public accounting firm, as stated in their report included elsewhere in this prospectus. Such financial statements have been so included in reliance on the report of such firm given upon their authority as experts in accounting and auditing.

The consolidated statements of financial position of Spectrum Brands Holdings, Inc. as of September 30, 2010 and 2009 (Successor Company), and the related consolidated statements of operations, shareholders equity (deficit) and comprehensive income (loss), and cash flows for the year ended September 30, 2010, the period August 31, 2009 to September 30, 2009 (Successor Company), the period October 1, 2008 to August 30, 2009, and the year ended September 30, 2008 (Predecessor Company), the financial statement schedule II, and the effectiveness of internal control over financial reporting as of September 30, 2010, have been included in this registration statement and prospectus in reliance upon the reports of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing.

KPMG LLP s reports include an explanatory paragraph that describes Spectrum Brands emergence from bankruptcy protection on August 28, 2009 and adoption of fresh start reporting on August 30, 2009, resulting in the Successor

Company s consolidated financial statements prior to August 30, 2009 not being comparable to its consolidated financial statements for periods on or after August 30, 2009. KPMG LLP s reports also

Table of Contents

include an explanatory paragraph that describes the Successor Company s change to the measurement date of accounting for pension and other post retirement on September 30, 2009.

The consolidated balance sheets of Fidelity & Guaranty Life Holdings, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in shareholder s equity (deficit) and cash flows for each of the years in the three-year period ended December 31, 2010, have been included in this registration statement and prospectus in reliance upon the report of KPMG LLP, independent registered public accounting firm, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing. The audit report covering these financial statements refers to a change in the method of accounting for other-than-temporary impairments in 2009 and for the fair value of financial instruments in 2008.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
A. HARBINGER GROUP INC. AND SUBSIDIARIES	
Audited Consolidated Financial Statements for the Fiscal Years Ended December 31, 2010, 2009 and 2008	
Reports of Independent Registered Public Accounting Firms	F-2
Consolidated Balance Sheets as of December 31, 2010 and 2009	F-5
Consolidated Statements of Operations for the Years Ended December 31, 2010, 2009 and 2008	F-6
Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2009 and 2008	F-7
Consolidated Statement of Changes in Equity and Comprehensive Income (Loss) for the Years Ended December 31, 2010, 2009 and 2008	F-8
Notes to Consolidated Financial Statements	F-9
B. SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES	
Unaudited Condensed Consolidated Financial Statements for the Three Month Periods Ended January 2, 2011 and January 3, 2010	
Unaudited Condensed Consolidated Statements of Financial Position as of January 2, 2011 and September 30, 2010	F-30
Unaudited Condensed Consolidated Statements of Operations for the Three Month Periods Ended January 2, 2011 and January 3, 2010	F-31
Unaudited Condensed Consolidated Statements of Cash Flows for the Three Month Periods Ended January 2, 2011 and January 3, 2010	F-32
Notes to Unaudited Condensed Consolidated Financial Statements	F-33
Audited Consolidated Financial Statements for the Fiscal Years Ended September 30, 2010, 2009 and 2008	
Reports of Independent Registered Public Accounting Firm	F-67
Consolidated Statements of Financial Position as of September 30, 2010 and 2009	F-69
Consolidated Statements of Operations for the Year Ended September 30, 2010, the Period August 31, 2009 to September 30, 2009, the Period October 1, 2008 to August 30, 2009, and the Year Ended September 30, 2008	F-70
Consolidated Statements of Shareholders Equity (Deficit) and Comprehensive Income (Loss) for the Year Ended September 30, 2010, the Period August 31, 2009 to September 30, 2009, the Period October 1, 2008 to August 30, 2009, and the Year Ended September 30, 2008	F-71
Consolidated Statements of Cash Flows for the Year Ended September 30, 2010, the Period August 31, 2009 to September 30, 2009, the Period October 1, 2008 to August 30, 2009, and the Year Ended September 30, 2008	F-72
Notes to Consolidated Financial Statements	F-74
Schedule II Valuation and Qualifying Accounts	F-144
C. FIDELITY & GUARANTY LIFE HOLDINGS, INC.	
Audited Consolidated Financial Statements for the Fiscal Years Ended December 31, 2010, 2009 and 2008	
Independent Auditors Report	F-145
Consolidated Balance Sheets as of December 31, 2010 and 2009	F-146
Consolidated Statements of Operations for the Years Ended December 31, 2010, 2009 and 2008	F-147
	F-148

Consolidated Statements of Changes in Shareholder s Equity (Deficit) for the Years Ended December 31, 2010, 2009 and 2008	
Consolidated Statements of Cash Flows for the Years Ended December 31, 2010, 2009 and 2008	F-150
Notes to Consolidated Financial Statements	F-151

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Harbinger Group Inc.:

We have audited the accompanying consolidated balance sheet of Harbinger Group Inc. and subsidiaries (the Company) as of December 31, 2010, and the related consolidated statements of operations, changes in equity and comprehensive income (loss), and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2010, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2011 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

New York, New York
March 11, 2011

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Harbinger Group Inc.:

We have audited Harbinger Group Inc. and subsidiaries (the Company) internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2010, and the related consolidated statements of operations, changes in equity and comprehensive income (loss), and cash flows for the year then ended, and our report dated March 11, 2011 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York

March 11, 2011

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Harbinger Group Inc.
Rochester, NY

We have audited the accompanying consolidated balance sheet of Harbinger Group Inc. and subsidiaries (the Company) as of December 31, 2009, and the related consolidated statements of operations, changes in equity and comprehensive income (loss), and cash flows for each of the two years in the period ended December 31, 2009. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Harbinger Group Inc. and subsidiaries at December 31, 2009, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Rochester, New York
February 26, 2010

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2010	December 31, 2009
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents (Note 3)	$ 39,311	$ 127,932
Short-term investments (Note 3)	71,688	15,952
Prepaid expenses and other current assets	799	530
Total current assets	111,798	144,414
Restricted cash (Notes 3 and 7)	360,133	
Long-term investments (Note 3)		8,039
Property and equipment, net (Note 4)	137	35
Debt issuance costs, net (Note 7)	11,395	
Other assets	471	395
Total assets	$ 483,934	$ 152,883
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 2,728	$ 593
Accrued and other current liabilities (Note 5)	7,414	1,874
Total current liabilities	10,142	2,467
Long-term debt (Note 7)	345,146	
Pension liabilities (Note 12)	3,611	3,519
Other liabilities (Note 6)	709	1,100
Total liabilities	359,608	7,086
Commitments and contingencies (Note 11)		
Harbinger Group Inc. stockholders equity (Note 8):		
Preferred stock, $.01 par; 10,000,000 shares authorized; none issued or outstanding		
Common stock, $.01 par; 500,000,000 shares authorized; 19,292,110 and 19,284,850 shares issued and outstanding at December 31, 2010 and December 31, 2009, respectively	193	193
Additional paid in capital	132,773	132,638
Retained earnings	1,543	23,848
Accumulated other comprehensive loss (Note 12)	(10,210)	(10,912)

Total Harbinger Group Inc. stockholders equity		124,299		145,767
Noncontrolling interest (Note 2)		27		30
Total equity		124,326		145,797
Total liabilities and equity	$	483,934	$	152,883

See accompanying notes to consolidated financial statements.

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,		
	2010	**2009**	**2008**
	(In thousands, except per share data)		
Revenues	$	$	$
Cost of revenues			
Gross profit			
Operating expenses:			
General and administrative (Notes 11,12,13 and 14)	18,846	6,290	3,237
Total operating expenses	18,846	6,290	3,237
Operating loss	(18,846)	(6,290)	(3,237)
Other income (expense):			
Interest expense (Note 7)	(4,963)		
Interest income	220	229	3,013
Other, net	523	1,280	113
Total other income (expense)	(4,220)	1,509	3,126
Loss before income taxes	(23,066)	(4,781)	(111)
Benefit from (provision for) income taxes (Note 10)	758	(8,566)	98
Net loss	(22,308)	(13,347)	(13)
Less: Net loss attributable to the noncontrolling interest	3	3	1
Net loss attributable to Harbinger Group Inc.	$ (22,305)	$ (13,344)	$ (12)
Net loss per common share basic and diluted (Note 9)	$ (1.16)	$ (0.69)	$ 0.00
Weighted average common shares outstanding:			
Basic	19,286	19,280	19,276
Diluted	19,286	19,280	19,276

See accompanying notes to consolidated financial statements.

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2010	2009	2008
	(In thousands)		
Cash flows from operating activities:			
Net loss	$ (22,308)	$ (13,347)	$ (13)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	44	7	
Amortization of debt issuance costs	223		
Amortization of debt discount	91		
Stock-based compensation	114	2	
Deferred income taxes	148	8,542	(148)
Changes in assets and liabilities:			
Prepaid expenses and other current assets	(362)	(94)	902
Accounts payable	2,135	501	(88)
Accrued and other current liabilities	5,540	829	(96)
Pension liabilities	794	910	17
Other liabilities	(391)	(44)	(185)
Net cash (used in) provided by operating activities	(13,972)	(2,694)	389
Cash flows from investing activities:			
Purchases of investments	(176,191)	(28,065)	(302,064)
Maturities of investments	128,494	16,039	305,118
Capital expenditures	(143)	(42)	
Other investing activities	(134)		
Net cash (used in) provided by investing activities	(47,974)	(12,068)	3,054
Cash flows from financing activities:			
Proceeds from issuance of debt	345,055		
Restricted cash placed in escrow	(360,133)		
Debt issuance costs	(11,618)		
Stock options exercised	21		
Net cash used in financing activities	(26,675)		
Net (decrease) increase in cash and cash equivalents	(88,621)	(14,762)	3,443
Cash and cash equivalents at beginning of period	127,932	142,694	139,251
Cash and cash equivalents at end of period	$ 39,311	$ 127,932	$ 142,694

Cash paid during the year for:			
Interest	$	$	$
Income taxes	$	$	$ 97

See accompanying notes to consolidated financial statements.

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Common Stock Shares	Common Stock Amount	Additional Paid Capital	Retained Earnings	Common Stock Held in Treasury	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total Equity	Comprehensive Income (Loss)
					(In thousands)				
Balance at January 1, 2008	24,709	$ 247	$ 164,250	$ 37,204	$ (31,668)	$ (7,934)	$ 34	$ 162,133	
Net loss				(12)			(1)	(13)	$ (13)
Actuarial adjustments to pension plans, net of tax effects (Note 12)						(3,273)		(3,273)	(3,273)
Comprehensive loss									(3,286)
Less: Comprehensive loss attributable to the noncontrolling interest									1
Total comprehensive loss attributable to Harbinger Group, Inc.									$ (3,285)
Balance at December 31, 2008	24,709	247	164,250	37,192	(31,668)	(11,207)	33	158,847	
Net loss				(13,344)			(3)	(13,347)	$ (13,347)
Treasury stock retirement (Note 8)	(5,432)	(54)	(31,614)		31,668				
Stock option net exercises (Note 14)	8								
Actuarial adjustments to pension plans, net of tax effects (Note 12)						295		295	295
Stock-based compensation (Note 14)			2					2	
Comprehensive loss									(13,052)
									3

Less: Comprehensive loss attributable to the noncontrolling interest									
Total comprehensive loss attributable to Harbinger Group, Inc.									$ (13,049)
Balance at December 31, 2009	19,285	193	132,638	23,848		(10,912)	30	145,797	
Net loss				(22,305)			(3)	(22,308)	$ (22,308)
Stock options exercised (Note 14)	7		21					21	
Actuarial adjustments to pension plans, net of tax effects (Note 12)						702		702	702
Stock-based compensation (Note 14)			114					114	
Comprehensive loss									(21,606)
Less: Comprehensive loss attributable to the noncontrolling interest									3
Total comprehensive loss attributable to Harbinger Group, Inc.									$ (21,603)
Balance at December 31, 2010	19,292	$ 193	$ 132,773	$ 1,543	$	$ (10,210)	$ 27	$ 124,326	

See accompanying notes to consolidated financial statements.

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Business and Organization

Harbinger Group Inc. (HGI and, together with its consolidated subsidiaries, the Company) is a holding company with approximately $471.1 million in cash, cash equivalents and investments (of which $360.1 was restricted pending the completion of the Spectrum Brands Acquisition) at December 31, 2010. The Company s principal focus is to identify and evaluate business combinations or acquisitions of businesses. The Company currently owns 98% of Zap.Com Corporation (Zap.Com), a public shell company that may seek assets or businesses to acquire. As discussed in Notes 15 and 17, on January 7, 2011, the Company acquired a controlling interest in Spectrum Brands Holdings, Inc. (SB Holdings), a global branded consumer products company.

As of December 31, 2010, Harbinger Capital Partners Master Fund I, Ltd. (the Harbinger Master Fund), Global Opportunities Breakaway Ltd. (the Harbinger Global Fund) and Harbinger Capital Partners Special Situations Fund, L.P. (Harbinger Special Situations Fund and together with the Harbinger Master Fund and Harbinger Global Fund, the Harbinger Parties or the Company s Principal Stockholders) collectively owned 51.6% of the Company s common stock. On January 7, 2011, the Principal Stockholders ownership of the Company increased to 93.3% from 51.6% as a result of the Company s acquisition of a controlling interest in SB Holdings from the Principal Stockholders as discussed in Notes 15 and 17.

Note 2. Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of Harbinger Group Inc., its 98% owned subsidiary, Zap.Com, and certain wholly-owned non-operating subsidiaries and are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All intercompany balances and transactions have been eliminated in consolidation. The noncontrolling interest component of total equity represents the 2% share of Zap.Com not owned by the Company.

The Company follows the accounting guidance which establishes standards for reporting information about operating segments in annual financial statements and related disclosures about products and services, geographic areas and major customers. As of December 31, 2010, the Company has determined that it does not have any separately reportable operating segments.

Cash and Cash Equivalents

The Company principally invests its excess cash in U.S. Government instruments. All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

Investments

A portion of the Company s investments are held in U.S. Government instruments with maturities greater than three months. As the Company has both the intent and the ability to hold these securities to maturity, they are considered held-to-maturity investments. Such investments are recorded at original cost plus accrued interest, which is included in Prepaid expenses and other current assets.

Restricted Cash

As of December 31, 2010, the Company had restricted cash held in escrow under the terms of its 10.625% Senior Secured Notes (the 10.625% Notes) issued on November 15, 2010 (see Note 7). The restricted cash is classified as a non-current asset since it relates to the long-term debt. Such funds became unrestricted upon their release from escrow on January 7, 2011 (see Note 17).

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation. Major improvements which extend the lives of existing property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from accounts and any resulting gain or loss is recognized in the statement of operations.

Depreciation is provided on a straight-line basis over an estimated useful life of three years for furniture, fixtures and equipment. Leasehold improvements are depreciated over the lesser of the useful life of the improvement or the term of the lease.

Debt Issuance Costs and Original Issue Discount

Deferred debt issuance costs and original issue discount on debt are amortized to interest expense using the effective interest method.

Income Taxes

Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company also applies the accounting guidance for uncertain tax positions which prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. 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.

Use of Estimates

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

The Company s significant estimates which are susceptible to change in the near term relate to (1) estimates of reserves for litigation and environmental reserves (see Note 11) (2) recognition of deferred tax assets and related valuation allowances (see Note 10) and (3) assumptions used in the actuarial valuations for defined benefit plans (see Note 12).

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk include the Company s cash, cash equivalents and investments. These funds are currently concentrated among three financial institutions; however, the majority of the Company s unrestricted funds are invested in U.S. Government Treasuries, backed by the full faith and credit of the U.S. Government, which are held by these financial institutions on behalf of the Company. The restricted funds were held in a bank money market account at December 31, 2010.

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Recently Issued Accounting Pronouncements Not Yet Adopted

There are no recent accounting pronouncements that have not yet been adopted that the Company believes may have a material impact on its consolidated financial statements.

Reclassifications

Certain reclassifications have been made to prior year financial information to conform to the current year presentation. Specifically, the Company reclassified Non-trade receivables , which were not significant during the periods presented, into Prepaid expenses and other current assets in the consolidated balance sheets and reclassified the related changes in the consolidated statements of cash flows.

Note 3. Fair Value of Financial Instruments

The Company classifies its U.S. Treasury investments as held-to-maturity, unless original maturities are three months or less, and, accordingly, their carrying amounts represent amortized cost, which is original cost adjusted for the amortization of premiums and discounts, plus accrued interest. The accrued interest receivable is included in Prepaid expenses and other current assets in the accompanying consolidated balance sheets. The carrying amounts approximate fair value. The carrying amounts and estimated fair values of the Company s financial instruments for which the disclosure of fair values is required were as follows (in thousands):

	December 31, 2010			December 31, 2009		
	Carrying Amount	**Fair Value**	**Unrecognized Loss**	**Carrying Amount**	**Fair Value**	**Unrecognized Loss**
Cash and cash equivalents:						
U.S. Treasury Bills	$ 24,074	$ 24,074	$	$ 127,593	$ 127,591	$ (2)
Treasury money market	426	426		36	36	
Checking accounts	14,811	14,811		303	303	
Total cash and cash equivalents	39,311	$ 39,311		127,932	$ 127,930	(2)
Less: Accrued interest classified as other current assets						
Total cash and cash equivalents, at cost	39,311			127,932		
Short-term investments						
U.S. Treasury Bills and Notes	71,743	71,715	(28)	15,956	15,916	(40)
Total short-term investments	71,743	$ 71,715	(28)	15,956	$ 15,916	(40)
	(55)			(4)		

Less: Accrued interest classified as other current assets						
Total short-term investments, at cost	71,688			15,952		
Restricted cash in bank money market account	360,133	$ 360,133			$	
Long-term investments						
U.S. Treasury Notes				8,056	8,018	(38)
Total long-term investments		$		8,056	$ 8,018	(38)
Less: Accrued interest classified as other current assets				(17)		
Total long-term investments, at cost				8,039		
Total cash, cash equivalents and investments	$ 471,132		$ (28)	$ 151,923		$ (80)

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Interest rates on the Company s U.S. Treasury Bills classified as cash and cash equivalents had interest rates of 0.05% and 0.00% at December 31, 2010 and 2009, respectively. As of December 31, 2010, the Company s short-term investments had maturities up to approximately 11 months and had interest rates ranging from 0.1% to 0.3%. As of December 31, 2009, the Company s short-term investments had maturities up to approximately 10 months with interest rates ranging from 0.38% to 0.62%. In addition, at December 31, 2009, the Company had long-term investments with maturities up to approximately 1.3 years with interest rates ranging from 0.44% to 0.60%.

The Company expects that all of the gross unrecognized losses aggregating $28,000 as of December 31, 2010 will not be realized since the Company has the intent and ability to hold its U.S. Treasury investments to maturity. All short-term investments will mature in less than one year.

The Company estimates that the fair value of its long-term debt is approximately $349,125,000 compared to its carrying value of $345,146,000 at December 31, 2010. The fair value is based on an indicative bid price for the 10.625% Notes as of December 31, 2010.

See Note 12 with respect to fair value measurements of the Company s pension plan assets.

Note 4. Property and Equipment

The components of property and equipment are as follows (in thousands):

	December 31,	
	2010	2009
Furniture and fixtures	$ 55	$ 32
Equipment	91	155
Leasehold improvements	41	38
Total property and equipment, at cost	187	225
Less accumulated depreciation	(50)	(190)
Property and equipment, net of accumulated depreciation	$ 137	$ 35

Note 5. Accrued and Other Current Liabilities

Accrued and other current liabilities consist of the following (in thousands):

	December 31,	
	2010	2009
Interest (Note 7)	$ 4,648	$
Employee compensation and benefits	1,351	169

Insurance	356	578
Legal and environmental reserves (Note 11)	340	345
Professional fees	186	433
Franchise tax	157	30
Pension accrual (Note 12)	98	104
Federal and state income taxes (Note 10)	9	3
Other	269	212
	$ 7,414	$ 1,874

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Other Liabilities

Other liabilities consist of the following (in thousands):

	December 31,	
	2010	2009
Uncertain tax positions	$ 366	$ 732
Retirement agreement	323	333
Other	20	35
	$ 709	$ 1,100

Note 7. Long-Term Debt

10.625% Senior Secured Notes

On November 15, 2010, the Company issued $350 million aggregate principal amount of 10.625% Senior Secured Notes due November 15, 2015. The 10.625% Notes were sold only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended, and to certain persons in offshore transactions in reliance on Regulation S, but have future registration requirements. The 10.625% Notes were issued at a price equal to 98.587% of the principal amount thereof, with an original issue discount (OID) aggregating $4,945,000. Interest on the 10.625% Notes is payable semi-annually, commencing on May 15, 2011 and ending November 15, 2015. The 10.625% Notes, net of unamortized OID of $4,854,000, are classified as Long-term debt in the accompanying consolidated balance sheet as of December 31, 2010.

The net proceeds from issuance of the 10.625% Notes, together with an amount equal to accrued interest and amortized OID to April 7, 2011, were deposited into a segregated escrow account pending the Company s acquisition (the Spectrum Brands Acquisition) of a controlling interest in the common stock of SB Holdings by March 31, 2011 (see Notes 15 and 17 for discussion of the Spectrum Brands Acquisition). Such escrow balance is classified as Restricted cash in the accompanying consolidated balance sheet as of December 31, 2010. As disclosed in Note 17, the escrow balance was subsequently released to the Company on January 7, 2011 upon completion of the Spectrum Brands Acquisition and the collateralization of the 10.625% Notes with a first priority lien on all of the assets of the Company, including the SB Holdings common stock acquired by it as well as all of the stock held by the Company in its other subsidiaries and the Company s cash and investment securities. The Company intends to use the net proceeds from issuance of the 10.625% Notes for general corporate purposes, which may include acquisitions and other investments.

The Company has the option to redeem the 10.625% Notes prior to May 15, 2013 at a redemption price equal to 100% of the principal amount plus a make-whole premium and accrued and unpaid interest to the date of redemption. At any time on or after May 15, 2013, the Company 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, the Company may redeem up to 35% of the original aggregate principal amount of the

10.625% Notes with net cash proceeds received by the Company from certain equity offerings at a price equal to 110.625% of the principal amount of the 10.625% Notes redeemed, plus accrued and unpaid interest, if any, to the date of redemption, provided that redemption occurs within 90 days of the closing date of such equity offering, and at least 65% of the aggregate principal amount of the 10.625% Notes remains outstanding immediately thereafter.

The indenture governing the 10.625% Notes contains covenants limiting, among other things, and subject to certain qualifications and exceptions, the ability of HGI, and, in certain cases, HGI s subsidiaries, to incur additional indebtedness; create liens; engage in sale-leaseback transactions; pay dividends or make distributions in respect of capital stock; make certain restricted payments; sell assets; engage in transactions with affiliates; or consolidate or merge with, or sell substantially all of its assets to, another person. HGI is also

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 SB Holdings common stock owned by HGI, subsequent to the collateralization on January 7, 2011. The Company was in compliance with all of such applicable covenants as of December 31, 2010.

The Company incurred $11.6 million of costs in connection with its issuance of the 10.625% Notes. These costs are classified as Debt issuance costs in the accompanying consolidated balance sheet as of December 31, 2010 and, along with the OID, are being amortized to interest expense utilizing the effective interest method over the term of the 10.625% Notes.

Note 8. Equity

On November 3, 2009, the Company s board of directors and Principal Stockholders approved the merger (the Reincorporation Merger) of Zapata Corporation (Zapata), a Nevada corporation, with and into its newly formed wholly-owned subsidiary, Harbinger Group Inc., a Delaware corporation. The Principal Stockholders approved the Reincorporation Merger by written consent in lieu of a meeting. On December 23, 2009, the Company completed the Reincorporation Merger and the Company effectively changed its name to Harbinger Group Inc. and changed its domicile from the State of Nevada to the State of Delaware. In connection with the Reincorporation Merger, stockholders received one share of common stock of Harbinger Group Inc. for each share of Zapata common stock owned at the effective date of the Reincorporation Merger.

Immediately prior to the effectiveness of the Reincorporation Merger, the Company s authorized capital stock consisted of 1,600,000 shares of preferred stock, par value $0.01 per share, 14,400,000 shares of preference stock, par value $0.01 per share and 132,000,000 shares of common stock, of which 19,284,850 shares were outstanding and 5,432,080 shares were held in treasury. No preferred stock or preference stock was issued or outstanding.

At the time of the Reincorporation Merger and at December 31, 2010, the Company s authorized capital stock consisted of 10,000,000 shares of preferred stock and 500,000,000 shares of common stock. The board of directors has the right to set the dividend, voting, conversion, liquidation and other rights, as well as the qualifications, limitations, and restrictions, with respect to the preferred stock. As of December 31, 2010, the Company had 19,292,110 shares of common stock issued and outstanding, with no shares held in treasury, and no preferred stock issued or outstanding. As of December 31, 2010, the Company had 480,707,890 shares of common stock and 10,000,000 shares of preferred stock available for issuance.

On January 7, 2011, the Company issued the Harbinger Parties 119,909,829 shares of its common stock in connection with the Spectrum Brands Acquisition discussed in Notes 15 and 17. Reflecting such share issuance, the Company had 139,201,939 shares of common stock issued and 360,798,061 shares of common stock available for issuance as of January 7, 2011.

Note 9. Net Loss Per Common Share

Net loss per common share basic is computed by dividing Net loss attributable to Harbinger Group Inc. by the weighted average number of common shares outstanding. Net loss per common share diluted in each of the years presented was the same as Net loss per common share basic as the Company reported a net loss and, therefore, the effect of all potentially dilutive securities on the net loss would have been anti-dilutive.

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table details the potential common shares excluded from the calculation of Net loss per common share diluted because the associated exercise prices were greater than the average market price of the Company s common stock, or because their impact would be antidilutive due to the Company s net loss for the period (in thousands, except per share amounts):

	Years Ended December 31,		
	2010	**2009**	**2008**
Stock options	503	524	427
Weighted average exercise price per share	$ 5.65	$ 5.49	$ 5.12

Note 10. Income Taxes

Benefit from (provision for) income taxes consisted of the following (in thousands):

	Years Ended December 31,		
	2010	**2009**	**2008**
Current:			
State	$ (9)	$ (5)	$ (24)
Federal	915	(19)	(26)
Deferred:			
State		(49)	(10)
Federal	(148)	(8,493)	158
Benefit from (provision for) income taxes	$ 758	$ (8,566)	$ 98

The following table reconciles the expected benefit from income taxes for all periods computed using the U.S. Federal statutory rate of 34% to the Benefit from (provision for) income taxes as reflected in the consolidated statements of operations (in thousands):

	Years Ended December 31,		
	2010	**2009**	**2008**
Benefit at statutory rate	$ 7,843	$ 1,626	$ 38
Net operating loss and credit carryforward limitations due to ownership change		(7,376)	
Valuation allowance for deferred tax assets	(6,193)	(2,794)	(1)
Non-deductible professional fees and advisory services	(1,515)	(40)	
Decrease (increase) in tax reserve	401	(19)	(16)
State income taxes, net of Federal benefit	182	20	(25)
Change in estimated liabilities			123

Effect of deferred rate change			(17)
Other	40	17	(4)
Benefit from (provision for) income taxes	$ 758	$ (8,566)	$ 98

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Temporary differences and tax credit carryforwards that gave rise to significant portions of deferred tax assets and liabilities are as follows (in thousands):

	Years Ended December 31,	
	2010	**2009**
Deferred tax assets:		
Pension liabilities	$ 1,451	$ 1,424
Capitalized transaction costs	1,549	57
Accruals not yet deductible	1,033	582
Net operating loss carryforward	4,978	635
Alternative minimum tax credit		514
	9,011	3,212
Less valuation allowance	(8,645)	(2,698)
Total deferred tax assets	366	514
Deferred tax liabilities		
Net deferred tax assets	$ 366	$ 514

The Company s net deferred tax assets are reflected in the Company s consolidated balance sheets as follows:

	Years Ended December 31,	
	2010	**2009**
Prepaid expenses and other current assets	$ 26	$ 119
Other assets	340	395
Net deferred tax assets	$ 366	$ 514

The 2009 Change of Control resulted in an ownership change under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the IRC). As a result, the Company s ability to utilize pre-ownership change net operating loss (NOL) carryforwards of $3.3 million and alternative minimum tax (AMT) credits of $6.6 million was eliminated. The $3.3 million of NOL carryforwards included approximately $0.3 million which has not been recognized for financial statement purposes as they relate to benefits associated with stock option exercises that have not reduced current taxes payable.

The benefit from income taxes for the year ended December 31, 2010 principally represents the restoration in the 2010 first quarter of $732,000 of deferred tax assets previously written off in connection with the 2009 Change in Control in the third quarter of 2009 and a related reversal of $35,000 of accrued interest and penalties on uncertain tax positions. These deferred tax assets relate to net operating loss carryforwards which are realizable to the extent the Company settles its uncertain tax positions for which it had previously recorded $732,000 of reserves and $35,000 of related accrued interest and penalties. As a result, the final resolution of these uncertain tax positions will have no net effect on the Company s future provision for (or benefit from) income taxes.

The Company has $14.3 million of post-ownership change NOL carryforwards. However, in accordance with the accounting for stock-based compensation, approximately $76,000 of these carryforwards have not been recognized for financial statement purposes as they relate to benefits associated with stock option exercises that have not reduced current taxes payable. Equity will be increased by $27,000 if and when such

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

deferred tax assets are ultimately realized. The Company uses the ordering model prescribed by the liability method of accounting for income taxes when determining when excess tax benefits have been realized.

The Company s ability to utilize its NOL carryforward tax benefits is dependent on future taxable income. NOL carryforwards have a 20-year carry-forward period and will begin expiring in 2029.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Cumulative losses weigh heavily in the overall assessment of the need for a valuation allowance. As a result of its cumulative losses in recent years, the Company determined that a valuation allowance was required for substantially all of its deferred tax assets. Consequently, the Company s valuation allowance increased from $2.7 million as of December 31, 2009 to $8.6 million as of December 31, 2010.

The Company also applies the accounting guidance for uncertain tax positions which prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Unrecognized tax benefits were approximately $366,000 and $732,000 as of December 31, 2010 and 2009, respectively, which are classified as Other liabilities in the accompanying consolidated balance sheets. The reversal of these benefits will not affect the Company s effective tax rate when recognized. The Company expects that the full amount of unrecognized tax benefits will reverse during the next 12 months. The following is a roll-forward of the Company s total uncertain tax positions (in thousands):

Balance at December 31, 2007	$	732
Additions based on tax positions related to the current year		
Additions for tax positions of prior years		
Reductions for tax positions of prior years		
Settlements		
Balance at December 31, 2008	$	732
Additions based on tax positions related to the current year		
Additions for tax positions of prior years		
Reductions for tax positions of prior years		
Settlements		
Balance at December 31, 2009	$	732
Additions based on tax positions related to the current year		
Additions for tax positions of prior years		
Reductions for tax positions of prior years		(366)
Settlements		
Balance at December 31, 2010	$	366

Accrued interest expense and penalties, if any, related to the above uncertain tax positions are recorded in Benefit from (provision for) income taxes. For the years ended December 31, 2010, 2009 and 2008, the amount of interest expense and penalties (reversal) was $(35,000), $19,000 and $16,000, respectively. The Company files federal and state consolidated income tax returns and is subject to income tax examinations for years after 2006. The Company currently has no federal or state tax returns under examination.

If the Company has another change of ownership under section 382 of the IRC, utilization of NOL carryforward tax benefits could be significantly limited or possibly eliminated. An ownership change for this purpose is generally a change in the majority ownership of a company over a three-year period.

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Section 541 of the IRC subjects a corporation that is a personal holding company (PHC), as defined in the IRC, to a 15% tax on undistributed personal holding company income in addition to the corporation s normal income tax. Generally, undistributed PHC income is based on taxable income, subject to certain adjustments, most notably a reduction for Federal income taxes. Personal holding company income is comprised primarily of passive investment income plus, under certain circumstances, personal service income. A corporation is generally considered to be a personal holding company if (1) 60% or more of its adjusted ordinary gross income is personal holding company income and (2) 50% or more of its outstanding common stock is owned, directly or indirectly, by five or fewer individuals at any time during the last half of the taxable year.

Subsequent to the 2009 Change of Control, the Company may continue to qualify as a PHC. For 2010, the Company did not incur a PHC tax as it had a net operating loss for the year ended December 31, 2010. If it is determined that five or fewer individuals hold more than 50% in value of the Company s outstanding common stock during the second half of future tax years, it is possible that the Company could have at least 60% of adjusted ordinary gross income consist of PHC income as discussed above. Thus, there can be no assurance that the Company will not be subject to this tax in the future, which, in turn, may materially and adversely impact the Company s financial position, results of operations and cash flows. In addition, if the Company is subject to this tax in future periods, statutory tax rate increases could significantly increase its tax expense and adversely affect its consolidated operating results and cash flows. Specifically, the current 15% tax rate on undistributed PHC income is scheduled to expire as of December 31, 2012, after which the rate will revert back to the highest individual ordinary income rate of 39.6%.

Note 11. Commitments and Contingencies

Lease Commitments

Future annual minimum payments under non-cancelable operating lease obligations as of December 31, 2010 are approximately $208,000 in each of the years ending December 31, 2011 and 2012. Rental expense for leases was $139,000, $69,000 and $76,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

Legal and Environmental Matters

In 2004, Utica Mutual Insurance Company (Utica Mutual) commenced an action against the Company in the Supreme Court for the County of Oneida, State of New York, seeking reimbursement under a general agreement of indemnity entered into by the Company in the late 1970s. Based upon the discovery to date, Utica Mutual is seeking reimbursement for payments it claims to have made under (1) a worker s compensation bond and (2) certain reclamation bonds which were issued to certain former subsidiaries and are alleged by Utica Mutual to be covered by the general agreement of indemnity. While the precise amount of Utica Mutual s claim is unclear, it appears it is claiming approximately $0.5 million, including approximately $0.2 million relating to the workers compensation bond and approximately $0.3 million relating to the reclamation bonds.

In 2005, the Company was notified by Weatherford International Inc. (Weatherford) of a claim for reimbursement of approximately $0.2 million in connection with the investigation and cleanup of purported environmental contamination at two properties formerly owned by a non-operating subsidiary of the Company. The claim was made under an indemnification provision provided by the Company to Weatherford in a 1995 asset purchase agreement and relates to alleged environmental contamination that purportedly existed on the properties prior to the date of the sale. Weatherford has also advised the Company that Weatherford anticipates that further remediation and cleanup may be

required, although Weatherford has not provided any information regarding the cost of any such future clean up. The Company has challenged any responsibility to indemnify

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Weatherford. The Company believes that it has meritorious defenses to the claim, including that the alleged contamination occurred after the sale of the property, and intends to vigorously defend against it.

In December 2010, a derivative action was filed by Alan R. Kahn in the Delaware Court of Chancery alleging that the Spectrum Brands Acquisition was financially unfair to HGI and its public stockholders. See Note 15 for additional information regarding this litigation.

In addition to the matters described above, the Company is involved in other litigation and claims incidental to its current and prior businesses. These include multiple complaints 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 the Company s offshore drilling and bulk-shipping affiliates.

The Company has aggregate reserves for its legal and environmental matters of approximately $0.3 million at both December 31, 2010 and December 31, 2009 which reserves relate primarily to the Utica Mutual and Weatherford claims described above. However, based on currently available information, including legal defenses available to the Company, and given the aforementioned reserves and related insurance coverage, the Company does not believe that the outcome of these legal and environmental matters will have a material effect on its financial position, results of operations or cash flows.

Guarantees

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

Note 12. Defined Benefit Plans

General

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

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

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Consolidated Obligations and Funded Status (in thousands):

	December 31, 2010	December 31, 2009
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 18,504	$ 17,034
Interest cost	1,006	1,101
Actuarial loss	794	1,835
Benefits paid	(1,621)	(1,466)
Benefit obligation at end of year	18,683	18,504
Change in Plan Assets		
Plan assets at fair value at beginning of year	14,881	14,026
Actual return on plan assets	1,608	2,217
Company contributions	106	104
Benefits paid	(1,621)	(1,466)
Plan assets at fair value at end of year	14,974	14,881
Funded Status of Plans	$ (3,709)	$ (3,623)
Amounts Recognized in the Consolidated Balance Sheets Consist of:		
Accrued and other current liabilities	$ (98)	$ (104)
Pension liabilities	(3,611)	(3,519)
Net amount recognized	$ (3,709)	$ (3,623)
Amounts recognized in accumulated other comprehensive loss consisted of:		
Net actuarial loss	$ (16,948)	$ (17,650)
Net amount recognized	(16,948)	(17,650)
Cumulative deferred tax effects	6,738	6,738
Accumulated other comprehensive loss	$ (10,210)	$ (10,912)

Components of net periodic benefit cost (in thousands):

	Years Ended December 31, 2010	2009	2008

Service cost	$	$	$
Interest cost	1,006	1,101	1,091
Expected return on plan assets	(1,029)	(968)	(1,517)
Amortization of actuarial loss	918	881	548
Net periodic pension cost	$ 895	$ 1,014	$ 122

The Company expects to recognize approximately $0.9 million in pension expense during 2011. This amount is comprised of approximately $0.9 million of net actuarial losses, which will be amortized out of accumulated other comprehensive loss and included as a component of net periodic benefit cost, approximately $1.0 million of interest and service costs, offset by approximately $1.0 million of expected return on plan assets.

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Components of actuarial adjustments to pension plans, net of tax effects

The components of Actuarial adjustments to pension plans, net of tax effects included in Comprehensive Income (Loss) reported in the accompanying Consolidated Statements of Changes in Equity and Comprehensive Income (Loss) are as follows (in thousands):

	Years Ended December 31,		
	2010	**2009**	**2008**
Net actuarial loss arising during the year	$ (216)	$ (586)	$ (5,607)
Amortization of unrecognized net actuarial loss to net periodic benefit cost	918	881	548
Deferred tax benefit (provision)			1,786
Actuarial adjustments to pension plans, net of tax effects	$ 702	$ 295	$ (3,273)

Pension Plan Information

The accumulated benefit obligation for the Pension Plan was $17.9 million and $17.7 million at December 31, 2010 and 2009, respectively. The fair value of the Pension Plan assets was $15.0 million and $14.9 million at December 31, 2010 and 2009, respectively.

	Years Ended December 31,		
	2010	**2009**	**2008**
Assumptions used to determine benefit obligations			
Discount rate	5.14%	5.66%	6.75%
Assumptions used to determine net periodic benefit cost			
Discount rate	5.66%	6.75%	6.25%
Expected long-term return on plan assets	7.25%	7.25%	7.75%

The Company is responsible for establishing objectives and policies for the investment of Pension Plan assets with assistance from the Pension Plan s investment consultant. As the obligations are relatively long-term in nature, the investment strategy has been to maximize long-term capital appreciation. The Pension Plan has historically invested within and among equity and fixed income asset classes in a manner that sought to achieve the highest rate of return consistent with a moderate amount of volatility. At the same time, the Pension Plan maintained a sufficient amount invested in highly liquid investments to meet immediate and projected cash flow needs. To achieve these objectives, the Company developed guidelines for the composition of investments to be held by the Pension Plan. Due to varying rates of return among asset classes, the actual asset mix may vary somewhat from these guidelines but are generally rebalanced as soon as practical.

Pension Plan Assets. Asset allocations and target asset allocations by asset category are as follows:

Asset Category	Years Ended December 31,		Plan Investment Allocation Guidelines		
	2010	2009	Min	Target	Max
Domestic equity securities	52%	53%	28%	45%	75%
International equity securities	10%	11%	0%	10%	15%
Fixed income	38%	36%	10%	40%	60%
Other	0%	0%	0%	5%	15%

As of December 31, 2010 and 2009, no plan assets were invested in the Company s common stock.

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For 2010, the Company assumed a long-term asset rate of return of 7.25%. In developing this rate of return assumption, the Company evaluated historical returns and asset class return expectations based on the Pension Plan s current asset allocation. Despite the Company s belief that this assumption is reasonable, future actual results may differ from this estimate.

Fair value measurements for the Pension Plans assets at December 31, 2010 and 2009 are summarized below (in thousands):

Asset Category	Fair Value Measurements(1) December 31, 2010	December 31, 2009
Domestic equity securities	$ 7,788	$ 7,878
International equity securities	1,502	1,601
Fixed income	5,684	5,402
Total	$ 14,974	$ 14,881

(1) All Pension Plan investments are invested in and among equity and fixed income asset classes through collective trusts. Each collective trust s valuation is based on its calculation of net asset value per share reflecting the fair value of its underlying investments. Since each of these collective trusts allows redemptions at net asset value per share at the measurement date, its valuation is categorized as a Level 2 fair value measurement.

Contributions. Based on the currently enacted minimum pension plan funding requirements, the Company expects to make contributions during 2011 totaling approximately $0.4 million.

Estimated Future Benefit Payments. The following benefit payments are expected to be paid (in thousands):

	Pension Benefits
2011	$ 1,353
2012	1,344
2013	1,345
2014	1,364
2015	1,339
Years 2016-2020	6,684

Supplemental Plan Information

The accumulated benefit obligation for the Supplemental Plan was $0.8 million and $0.8 million at December 31, 2010 and 2009, respectively.

	Years Ended December 31,		
	2010	**2009**	**2008**
Assumptions used to determine benefit obligations			
Discount rate	4.38%	5.66%	6.75%
Assumptions used to determine net periodic benefit cost			
Discount rate	5.66%	6.75%	6.25%

Supplemental Plan Assets. The Supplemental Plan is unfunded and has no assets.

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Contributions. The Company plans to make no contributions to its Supplemental Plan in 2011 as the Supplemental Plan is an unfunded plan. Estimated future benefit payments will be made by the Company in accordance with the schedule below.

Estimated Future Benefit Payments. The following benefit payments are expected to be paid:

	Pension Benefits
2011	$ 98
2012	97
2013	92
2014	87
2015	81
Years 2016-2020	314

Note 13. Defined Contribution Plan

The Company has a 401(k) Plan (the 401(k) Plan) in which eligible participants may defer a fixed amount or a percentage of their eligible compensation, subject to limitations. The Company makes a discretionary matching contribution of up to 4% of eligible compensation. The Company recognized expenses for contributions to the 401(k) Plan of approximately $33,000, $28,000 and $25,000 in 2010, 2009 and 2008 respectively.

Note 14. Stock-Based Compensation

The consolidated statements of operations for the years ended December 31, 2010, 2009 and 2008 included $114,000, $2,000 and $0, respectively, of share-based compensation costs, included in General and administrative . The total income tax benefit recognized in the consolidated statements of operations for share-based compensation arrangements was $0, $1,000 and $0 for the years ended December 31, 2010, 2009 and 2008, respectively.

On December 5, 1996, the Company s stockholders approved a long-term incentive plan (the 1996 Plan). The 1996 Plan provides for the granting of restricted stock, stock appreciation rights, stock options and other types of awards to key employees of the Company. Under the 1996 Plan, options may be granted at prices equivalent to the market value of the common stock on the date of grant. Options become exercisable in one or more installments on such dates as the Company may determine. Unexercised options will expire on varying dates up to a maximum of ten years from the date of grant. All options granted vest ratably over three years beginning on the first anniversary of the date of grant. The 1996 Plan, as amended, provides for the issuance of options to purchase up to 8,000,000 shares of common stock. At December 31, 2010, stock options covering a total of 1,652,412 shares had been exercised and a total of 5,852,808 shares of common stock are available for future stock options or other awards under the Plan. As of December 31, 2010, there were options for the purchase of up to 494,780 shares of common stock outstanding under the 1996 Plan. No restricted stock, stock appreciation rights or other types of awards have been granted under the 1996 Plan.

In May 2002, the Company s stockholders approved specific stock option grants of 8,000 options to each of the six non-employee directors of the Company. These grants had been approved by the board of directors and awarded by the Company in March 2002, subject to stockholder approval. These grants are non-qualified options with a ten year life and became exercisable in cumulative one-third installments vesting annually beginning on the first anniversary of the date of grant. As of December 31, 2010, there were options for the purchase of up to 8,000 shares outstanding under these grants.

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In 2010 and 2009, stock options for 10,000 and 125,000 shares were granted with grant date fair values of $2.35 and $2.63 per share, respectively. There were no stock options granted in 2008. The following assumptions were used in the determination of these grant date fair values using the Black-Scholes option pricing model:

	2010	2009
Risk-free interest rate	2.6%	3.1%
Assumed dividend yield		
Expected option term	6 years	6 years
Volatility	32.0%	32.6%

A summary of the Company s stock option activity as of December 31, 2010, and changes during the year then ended, is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Team	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2010	524,040	$ 5.49		
Granted	10,000	$ 6.50		
Exercised	(7,260)	$ 2.91		
Forfeited or expired	(24,000)	$ 3.33		
Outstanding at December 31, 2010	502,780	$ 5.65	4.0 years	$ 515
Exercisable at December 31, 2010	409,447	$ 5.35	2.8 years	$ 515
Vested or expected to vest at December 31,	502,780	$ 5.65	4.0 years	$ 515

The total intrinsic value of stock options exercised during the years ended December 31, 2010, 2009 and 2008 was $21,000, $61,000 and $0, respectively. In connection with these exercises, the Company remitted $7,000, $0 and $0 for the payment of withholding taxes during the years ended December 31, 2010, 2009 and 2008, respectively. The stock options exercised during 2009 were net exercises, pursuant to which the optionee received shares of common stock equal to the intrinsic value of the options (fair market value of common stock on date of exercise less exercise price) reduced by any applicable withholding taxes. The Company issued approximately 7,000, 8,000 and 0 shares of common stock during 2010, 2009 and 2008, respectively, related to these exercises.

As of December 31, 2010, there was approximately $0.2 million of total unrecognized compensation cost related to unvested share-based compensation arrangements. That cost is expected to be recognized over a weighted average period of 2.0 years.

Note 15. Related Party Transactions

Effective March 1, 2010, the Company entered into a management agreement with Harbinger Capital Partners LLC (Harbinger Capital), an affiliate of the Company, whereby Harbinger Capital may provide advisory and consulting services to the Company. The Company has agreed to reimburse Harbinger Capital for its out-of-pocket expenses and the cost of certain services performed by legal and accounting personnel of Harbinger Capital under the agreement. For the year ended December 31, 2010, the Company did not incur any costs related to this agreement.

On September 10, 2010, the Company entered into a Contribution and Exchange Agreement (as amended, the Exchange Agreement) with the Harbinger Parties, whereby the Harbinger Parties agreed to contribute a

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

majority interest in SB Holdings to the Company in the Spectrum Brands Acquisition in exchange for 4.32 shares of the Company s common stock for each share of SB Holdings common stock contributed to the Company. The exchange ratio of 4.32 to 1.00 was based on the respective volume weighted average trading prices of the Company s common stock ($6.33) and SB Holdings common stock ($27.36) on the New York Stock Exchange (NYSE) for the 30 trading days from and including July 2, 2010 to and including August 13, 2010, the day the Company received the Harbinger Parties proposal for the Spectrum Brands Acquisition.

The Harbinger Parties are the Company s Principal Stockholders and are affiliates of Harbinger Capital. As of December 31, 2010, the Harbinger Parties owned 9,950,061 shares of the Company s common stock, or approximately 51.6% of the outstanding common stock of the Company, and 34,256,905 shares of SB Holdings common stock.

SB Holdings is a global branded consumer products company and a leading supplier of batteries, shaving and grooming products, personal care products, small household appliances, specialty pet supplies, lawn & garden and home pest control products, personal insect repellents and portable lighting. Included in its portfolio of brands are Rayovac®, Remington®, Varta®, George Foreman ®, Black&Decker Home®, Toastmaster®, Tetra®, Marineland®, Nature s Miracle®, Dingo®, 8-in-1 ®, Littermaid®, Spectracide®, Cutter®, Repel®, and HotShot®. SB Holdings reported net sales of $2.6 billion for its most recent fiscal year ended September 30, 2010, which if adjusted for the pro forma full year effect of a significant acquisition made by it in June 2010, would have been $3.1 billion.

On September 10, 2010, a special committee of the Company s board of directors (the Spectrum Special Committee), consisting solely of directors who were determined by the Company s board of directors to be independent under the NYSE rules, unanimously determined that the Exchange Agreement and the Spectrum Brands Acquisition, were advisable to, and in the best interests of, the Company and its stockholders (other than the Harbinger Parties), approved the Exchange Agreement and the transactions contemplated thereby, and recommended that the Company s board of directors approve the Exchange Agreement and the Company s stockholders approve the issuance of the Company s common stock pursuant to the Exchange Agreement. On September 10, 2010, the Company s board of directors (based in part on the unanimous approval and recommendation of the Spectrum Special Committee) unanimously determined that the Exchange Agreement and the Spectrum Brands Acquisition were advisable to, and in the best interests of, the Company and its stockholders (other than the Harbinger Parties), approved the Exchange Agreement and the transactions contemplated thereby, and recommended that the Company s stockholders approve the issuance of its common stock pursuant to the Exchange Agreement.

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

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

As discussed in Note 17, on January 7, 2010, the Company completed the Spectrum Brands Acquisition pursuant to the Exchange Agreement.

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 16. Quarterly Financial Data (Unaudited)

The following table presents certain unaudited consolidated operating results for each of the Company s preceding eight quarters (in thousands, except per share data). The Company believes that the following information includes all adjustments (consisting only of normal recurring adjustments, except as disclosed in Notes 2 and 3 to the table) necessary for a fair presentation in accordance with GAAP. The operating results for any interim period are not necessarily indicative of results for any other period.

	Three Months Ended			
	March 31, 2010(2)	June 30, 2010	September 30, 2010	December 31, 2010
Revenues	$	$	$	$
Gross profit				
Operating loss	(3,738)	(3,335)	(7,803)	(3,970)
Net loss attributable to Harbinger Group Inc.	(2,702)	(3,159)	(7,744)	(8,700)
Net loss per common share basic and diluted(1)	(0.14)	(0.16)	(0.40)	(0.45)

	Three Months Ended			
	March 31, 2009	June 30, 2009	September 30, 2009(2)	December 31, 2009(3)
Revenues	$	$	$	$
Gross profit				
Operating loss	(1,200)	(1,173)	(1,401)	(2,516)
Net loss attributable to Harbinger Group Inc.	(727)	(462)	(8,498)	(3,657)
Net loss per common share basic and diluted(1)	(0.04)	(0.02)	(0.44)	(0.19)

(1) Net loss per common share has been computed independently for each quarter based upon the weighted average shares outstanding for that quarter. Therefore, the sum of the quarterly amounts may not equal the reported annual amounts.

(2) During the third quarter of 2009 as a result of the 2009 Change of Control, the Company wrote off approximately $8.2 million of net operating loss carryforward tax benefits and alternative minimum tax credits in accordance with Sections 382 and 383 of the IRC. Approximately $7.9 million of this write off impacted the income tax provision as $0.3 million of the $8.2 million had not been recognized for financial statement purposes as they related to benefits associated with stock option exercises that had not reduced current taxes payable. During the first quarter 2010, the Company recorded a benefit from income taxes of $0.8 million which represents the restoration of deferred tax assets previously written off in connection with the 2009 Change in Control referred to above and a related reversal of accrued interest and penalties on uncertain tax positions. See Note 10.

(3) Due to tax law changes enacted during the fourth quarter of 2009, the Company was able to re-establish approximately $0.5 million of AMT credits previously written off during the third quarter of 2009. However during the fourth quarter of 2009, the Company increased its valuation allowance on all deferred tax assets other than refundable AMT credits by approximately $2.8 million. See Note 10.

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 17. Subsequent Events

The Company evaluated subsequent events through the date when the financial statements were issued. During this period, the Company did not have any material recognizable subsequent events; however the Company did have unrecognized subsequent events as described below:

On January 7, 2011, the Company completed the Spectrum Brands Acquisition pursuant to the Exchange Agreement and issued an aggregate of 119,909,829 shares of its common stock to the Harbinger Parties in exchange for an aggregate of 27,756,905 shares of common stock (the SB Holdings Contributed Shares) of SB Holdings, or approximately 54.5% of the outstanding SB Holdings common stock.

As of the date of its completion, the Spectrum Brands Acquisition resulted in the following: (i) SB Holdings became the Company s majority-owned subsidiary and its results will be consolidated with the Company s results in the Company s financial statements in accordance with the accounting guidance discussed below; (ii) the Harbinger Parties together owned 129,859,890 shares, or approximately 93.3%, of the Company s outstanding common stock; (iii) the Harbinger Parties owned approximately 12.8% of the outstanding shares of SB Holdings common stock; and (iv) the remaining 32.7% of the outstanding SB Holdings common stock continued to be owned by stockholders of SB Holdings who are not affiliated with the Harbinger Parties. SB Holdings common stock continues to be traded on the NYSE under the symbol SPB .

The issuance of shares of the Company s common stock to the Harbinger Parties pursuant to the Exchange Agreement and the acquisition by the Company of the SB Holdings Contributed Shares were not registered under the Securities Act of 1933, as amended (the Securities Act). These shares are restricted securities under the Securities Act. The Company may not be able to sell the SB Holdings Contributed Shares and the Harbinger Parties may not be able to sell their shares of the Company s common stock acquired pursuant to the Exchange Agreement except pursuant to: (i) an effective registration statement under the Securities Act covering the resale of those shares, (ii) Rule 144 under the Securities Act, which requires a specified holding period and limits the manner and volume of sales, or (iii) any other applicable exemption under the Securities Act.

Immediately prior to the consummation of the Spectrum Brands Acquisition, the Harbinger Parties (or Parent) held the controlling financial interests in both the Company and SB Holdings. As a result, the Spectrum Brands Acquisition is considered a transaction between entities under common control under Accounting Standards Codification Topic 805, Business Combinations, (ASC Topic 805) and will be 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 should be recorded by the receiving entity based on their carrying amounts (or at the historical cost of the parent, if these amounts differ). Although the Company was the issuer of shares in the Spectrum Brands Acquisition, during the historical periods prior to the acquisition, SB Holdings was an operating business and the Company was not. Therefore, SB Holdings will be reflected as the predecessor and receiving entity in the Company s financial statements to provide a more meaningful presentation of the transaction to the Company s shareholders. Accordingly, the Company s assets and liabilities will be recorded at the Parent s basis as of the date that common control was first established (June 16, 2010). The Company s financial statements will be retrospectively adjusted to reflect as the Company s historical financial statements those of SB Holdings and Spectrum Brands Inc. (Spectrum Brands), a wholly-owned subsidiary of SB Holdings. SB Holdings was formed and, on June 16, 2010, acquired 100% of both Russell Hobbs, Inc., now a wholly-owned subsidiary of Spectrum Brands (Russell Hobbs), and Spectrum Brands in exchange for issuing an approximately 65% controlling financial interest to the Harbinger Parties and an

approximately 35% non-controlling financial interest to other stockholders (other than the Harbinger Parties) (this transaction is referred to as the SB/RH Merger). As Spectrum Brands was the accounting acquirer in the SB/RH Merger, the financial statements of Spectrum Brands will be included as the Company s predecessor entity for periods preceding the SB/RH Merger.

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with the Spectrum Brands Acquisition, the Company changed its fiscal year end from December 31 to September 30 to conform to the fiscal year end of SB Holdings. As a result of the Spectrum Brands Acquisition and the change in the Company s fiscal year, the Company s next quarterly report on Form 10-Q will be for the six months ended April 3, 2011, which will reflect the combination of the Company and SB Holdings retrospectively to the beginning of that six-month period.

On January 7, 2011, the escrow balance classified as Restricted cash as of December 31, 2010 was released to the Company upon completion of the Spectrum Brands Acquisition and the collateralization of the 10.625% Notes with a first priority lien on all of the assets of HGI. Those assets include the SB Holdings common stock acquired in the Spectrum Brands Acquisition as well as all of the stock held by HGI in its other subsidiaries and HGI s cash and investment securities.

On March 7, 2011, the Company entered into a Transfer Agreement (the Transfer Agreement) with the Harbinger Master Fund. Pursuant to the Transfer Agreement, on March 9, 2011, (i) the Company acquired from the Harbinger Master Fund a 100% membership interest in Harbinger OM, LLC, a Delaware limited liability company (HOM), which is the buyer under the First Amended and Restated Stock Purchase Agreement, dated as of February 17, 2011 (the Purchase Agreement), between HOM and OM Group (UK) Limited (OM Group), pursuant to which HOM agreed to acquire for $350 million all of the outstanding shares of capital stock of Old Mutual U.S. Life Holdings, Inc., a Delaware corporation (U.S. Life), and (ii) the Harbinger Master Fund transferred to HOM the sole issued and outstanding Ordinary Share of FS Holdco Ltd, a Cayman Islands exempted limited company (FS Holdco) (together, the Insurance Transaction). In consideration for the interests in HOM and FS Holdco, the Company agreed to reimburse the Harbinger Master Fund for certain expenses incurred by the Harbinger Master Fund in connection with the Insurance Transaction (up to a maximum of $13.3 million) and to submit certain expenses of the Harbinger Master Fund for reimbursement by OM Group under the Purchase Agreement. The Company estimates that it will incur total expenses (including the $13.3 million discussed above) of approximately $17.1 million in connection with the Insurance Transaction.

U.S. Life, through its insurance subsidiaries, is a leading provider of fixed annuity products in the U.S., with approximately 800,000 policy holders in the U.S. and a distribution network of approximately 300 independent marketing organizations representing approximately 24,000 agents nationwide. At December 31, 2010, U.S. Life had approximately $17 billion in annuity assets under management.

FS Holdco Ltd. was recently formed as a holding company for Front Street Re, Ltd. (Front Street), a recently formed Bermuda-based reinsurer. Neither HOM nor FS Holdco has engaged in any business other than in connection with the Insurance Transaction.

On January 19, 2011, the Company s board of directors delegated the consideration of the Insurance Transaction to a special committee comprised of those directors the Company s board of directors has determined to be independent under the rules of the New York Stock Exchange (the OM Special Committee). On February 28, 2011, the OM Special Committee unanimously determined that it is in the best interests of the Company and its stockholders (other than the Harbinger Master Fund and its affiliates) to enter into the Transfer Agreement and proceed with the Insurance Transaction and recommended that the Company s board of directors authorize the Company to enter into the Transfer Agreement, the Guaranty Indemnity (referred to below) and related documents, and proceed with the Insurance Transaction. In considering the Insurance Transaction, the OM Special Committee received an opinion from Gleacher & Company Securities, Inc., dated February 28, 2011, that stated that the consideration to be paid by HOM

pursuant to the Purchase Agreement is fair to the Company, from a financial point of view, as of that date. On March 7, 2011, the Company s board of directors approved the Transfer Agreement and the transactions contemplated thereby, including the Purchase Agreement.

Table of Contents

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The U.S. Life acquisition is subject to customary closing conditions for similar transactions, including approval by the Maryland and New York insurance departments. The acquisition is expected to close around the end of the Company s second fiscal quarter ending April 3, 2011.

The Transfer Agreement contemplates that after closing of the U.S. Life acquisition, the OM Special Committee will consider a proposed $3 billion reinsurance transaction pursuant to which Front Street would reinsure certain policy obligations of OM Financial Life Insurance Company, U.S. Life s principal insurance subsidiary (OMFLIC), and an affiliate of Harbinger Capital could be appointed as investment manager of certain of the assets associated with the reinsured business. The Purchase Agreement provides for up to a $50 million post-closing purchase price reduction under specified circumstances, including, for example, if the reinsurance transaction as contemplated by the Purchase Agreement is disapproved by the Maryland Insurance Administration or is approved by the Maryland Insurance Administration subject to the imposition of certain restrictions or conditions set forth in the Purchase Agreement, including if Harbinger Capital is not allowed to be appointed as investment manager for $1 billion of the approximately $3 billion of assets supporting the reinsured business, as contemplated by the Purchase Agreement.

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

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Condensed Consolidated Statements of Financial Position
January 2, 2011 and September 30, 2010

	January 2, 2011	September 30, 2010
	(Unaudited)	
	(Amounts in thousands, except per share figures)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 83,051	$ 170,614
Receivables:		
Trade accounts receivable, net of allowances of $8,861 and $4,351, respectively	371,311	365,002
Other	43,727	41,445
Inventories	512,300	530,342
Deferred income taxes	26,988	35,735
Assets held for sale	12,668	12,452
Prepaid expenses and other	46,121	44,122
Total current assets	1,096,166	1,199,712
Property, plant and equipment, net	197,328	201,164
Deferred charges and other	47,006	46,352
Goodwill	607,101	600,055
Intangible assets, net	1,746,223	1,769,360
Debt issuance costs	52,550	56,961
Total assets	$ 3,746,374	$ 3,873,604
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 31,544	$ 20,710
Accounts payable	273,804	332,231
Accrued liabilities:		
Wages and benefits	54,498	93,971
Income taxes payable	42,633	37,118
Restructuring and related charges	19,855	23,793
Accrued interest	24,911	31,652
Other	131,335	123,297
Total current liabilities	578,580	662,772
Long-term debt, net of current maturities	1,700,168	1,723,057
Employee benefit obligations, net of current portion	90,846	92,725
Deferred income taxes	290,346	277,843

Other		57,150		70,828
Total liabilities		2,717,090		2,827,225
Commitments and contingencies				
Shareholders equity:				
Common stock, $.01 par value, authorized 200,000 shares; issued 51,133 and 51,101 shares, respectively; outstanding 50,934 and 51,020 shares		528		514
Additional paid-in capital		1,321,604		1,316,461
Accumulated deficit		(280,650)		(260,892)
Accumulated other comprehensive loss		(6,749)		(7,497)
		1,034,733		1,048,586
Less treasury stock, at cost, 199 and 81 shares, respectively		(5,449)		(2,207)
Total shareholders equity		1,029,284		1,046,379
Total liabilities and shareholders equity	$	3,746,374	$	3,873,604

See accompanying notes which are an integral part of these condensed consolidated financial statements (Unaudited).

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Condensed Consolidated Statements of Operations
For the three month periods ended January 2, 2011 and January 3, 2010

	2011	2010
	(Unaudited) (Amounts in thousands, except per share figures)	
Net sales	$ 861,067	$ 591,940
Cost of goods sold	561,234	405,827
Restructuring and related charges	594	1,651
Gross profit	299,239	184,462
Selling	140,220	111,289
General and administrative	60,757	40,762
Research and development	7,567	6,445
Acquisition and integration related charges	16,455	2,431
Restructuring and related charges	4,971	4,776
Total operating expenses	229,970	165,703
Operating income	69,269	18,759
Interest expense	53,095	49,482
Other expense, net	889	646
Income (loss) from continuing operations before reorganization items and income taxes	15,285	(31,369)
Reorganization items expense, net		3,646
Income (loss) from continuing operations before income taxes	15,285	(35,015)
Income tax expense	35,043	22,499
Loss from continuing operations	(19,758)	(57,514)
Loss from discontinued operations, net of tax		(2,735)
Net loss	$ (19,758)	$ (60,249)
Basic earnings per share:		
Weighted average shares of common stock outstanding	50,802	30,000
Loss from continuing operations	$ (0.39)	$ (1.92)
Loss from discontinued operations		(0.09)
Net loss	$ (0.39)	$ (2.01)
Diluted earnings per share:		
Weighted average shares and equivalents outstanding	50,802	30,000

Loss from continuing operations	$	(0.39)	$	(1.92)
Loss from discontinued operations				(0.09)
Net loss	$	(0.39)	$	(2.01)

See accompanying notes which are an integral part of these condensed consolidated financial statements (Unaudited).

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Condensed Consolidated Statements of Cash Flows
For the three month periods ended January 2, 2011 and January 3, 2010

	2011	2010
	(Unaudited)	
	(Amounts in thousands)	
Cash flows from operating activities:		
Net loss	$ (19,758)	$ (60,249)
Loss from discontinuing operations		(2,735)
Loss from continuing operations	(19,758)	(57,514)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation	12,392	11,412
Amortization of intangibles	14,319	10,367
Amortization of unearned restricted stock compensation	5,614	3,196
Amortization of debt issuance costs	4,411	916
Administrative related reorganization items		3,646
Payments for administrative related reorganization items		(25,131)
Non-cash increase to cost of goods sold due to fresh-start reporting inventory valuation		34,494
Non-cash interest expense on 12% Notes		6,760
Non-cash debt accretion	2,330	6,165
Other non-cash adjustments	3,639	20,389
Net changes in assets and liabilities, net of discontinued operations	(73,321)	(37,826)
Net cash used by operating activities of continuing operations	(50,374)	(23,126)
Net cash used by operating activities of discontinued operations	(252)	(8,258)
Net cash used by operating activities	(50,626)	(31,384)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(8,142)	(4,934)
Acquisition, net of cash	(10,278)	
Proceeds from sale of equipment		4
Net cash used by investing activities	(18,420)	(4,930)
Cash flows from financing activities:		
Payment of Senior Credit Facilities	(70,000)	
ABL Revolving Credit Facility, net	43,500	(6,586)
Reduction of other debt	(224)	(4,804)
Proceeds from debt financing	13,044	12,605
Refund of debt issuance costs		204
Treasury stock purchases	(3,241)	
Net cash (used) provided by financing activities	(16,921)	1,419
Effect of exchange rate changes on cash and cash equivalents	(1,596)	(240)

Net decrease in cash and cash equivalents	(87,563)	(35,135)
Cash and cash equivalents, beginning of period	170,614	97,800
Cash and cash equivalents, end of period	$ 83,051	$ 62,665

See accompanying notes which are an integral part of these condensed consolidated financial statements (Unaudited).

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited)
(Amounts in thousands, except per share figures)

1 DESCRIPTION OF BUSINESS

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

In connection with the Merger, Spectrum Brands refinanced its existing senior debt, except for Spectrum Brands 12% Senior Subordinated Toggle Notes due 2019 (the 12% Notes), which remain outstanding, and a portion of Russell Hobbs existing senior debt through a combination of a new $750,000 United States (U.S.) Dollar Term Loan due June 16, 2016 (the Term Loan), a new $750,000 9.5% Senior Secured Notes maturing June 15, 2018 (the 9.5% Notes) and a new $300,000 ABL revolving facility due June 16, 2014 (the ABL Revolving Credit Facility). (See also Note 7, Debt, for a more complete discussion of the Company s outstanding debt.)

On February 3, 2009, Spectrum Brands, at the time a Wisconsin corporation, and each of its wholly owned U.S. subsidiaries (collectively, the Debtors) filed voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code (the Bankruptcy Code), in the U.S. Bankruptcy Court for the Western District of Texas (the Bankruptcy Court). On August 28, 2009 (the Effective Date), the Debtors emerged from Chapter 11 of the Bankruptcy Code. As of the Effective Date and pursuant to the Debtors confirmed plan of reorganization, Spectrum Brands converted from a Wisconsin corporation to a Delaware corporation. Prior to and including August 30, 2009, all operations of the business resulted from the operations of the Predecessor Company. In accordance with ASC Topic 852: *Reorganizations,* the Company determined that all conditions required for the adoption of fresh-start reporting were met upon emergence from Chapter 11 of the Bankruptcy Code on the Effective Date. However in light of the proximity of that date to the Company s August accounting period close, which was August 30, 2009, the Company elected to adopt a convenience date of August 30, 2009, (the Fresh-Start Adoption Date) for recording fresh-start reporting.

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

The Company is a diversified global branded consumer products company with positions in seven major product categories: consumer batteries; small appliances; pet supplies; electric shaving and grooming; electric personal care; portable lighting; and home and garden control.

Effective October 1, 2010, the Company s chief operating decision-maker decided to manage the businesses in three vertically integrated, product-focused reporting segments: (i) Global Batteries & Appliances, which consists of the Company s worldwide battery, electric shaving and grooming, electric personal care, portable lighting business and small appliances primarily in the kitchen and home product categories (Global Batteries & Appliances); (ii) Global Pet Supplies, which consists of the Company s worldwide pet supplies business (Global Pet Supplies); and (iii) Home

and Garden Business, which consists of the Company s home and garden and insect control businesses (the Home and Garden Business). The current reporting segment structure reflects the combination of the former Global Batteries & Personal Care segment (Global Batteries & Personal Care), which consisted of the worldwide battery, electric shaving and grooming, electric personal care and portable lighting business, with substantially all of the former Small Appliances segment, which consisted of the Russell Hobbs businesses acquired on June 16, 2010 (Small

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

Appliances), to form Global Batteries & Appliances. In addition, certain pest control and pet products included in the former Small Appliances segment have been reclassified into the Home and Garden Business and Global Pet Supplies segments, respectively. The presentation of all historical segment reporting herein has been changed to conform to this segment reporting.

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

The Company sells its products in approximately 120 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers and enjoys name recognition in its markets under the Rayovac, VARTA and Remington brands, each of which has been in existence for more than 80 years, and under the Tetra, 8-in-1, Spectracide, Cutter, Black & Decker, George Foreman, Russell Hobbs, Farberware and various other brands.

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: These condensed consolidated financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) and, in the opinion of the Company, include all adjustments (which are normal and recurring in nature) necessary to present fairly the financial position of the Company at January 2, 2011 and September 30, 2010, and the results of operations and cash flows for the three month periods ended January 2, 2011 and January 3, 2010. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP) have been condensed or omitted pursuant to such SEC rules and regulations. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2010. Certain prior period amounts have been reclassified to conform to the current period presentation.

Significant Accounting Policies and Practices: The condensed consolidated financial statements include the condensed consolidated financial statements of SB Holdings and its subsidiaries and are prepared in accordance with GAAP. All intercompany transactions have been eliminated.

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

Discontinued Operations: On November 11, 2008, the Predecessor Company board of directors (the Predecessor Board) approved the shutdown of the growing products portion of the Home and Garden Business, which included the manufacturing and marketing of fertilizers, enriched soils, mulch and grass seed. The decision to shutdown the growing products portion of the Home and Garden Business was made only after the Predecessor Company was unable to successfully sell this business, in whole or in part. The shutdown of the growing products portion of the Home and Garden Business was completed during the second quarter of the Company s fiscal year ended September 30, 2009.

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

The presentation herein of the results of continuing operations has been changed to exclude the growing products portion of the Home and Garden Business for all periods presented. The following amounts have been segregated from continuing operations and are reflected as discontinued operations for the three month period ended January 3, 2010:

	2010
Net sales	$
Loss from discontinued operations before income taxes	$ (2,512)
Provision for income tax expense	223
Loss from discontinued operations, net of tax	$ (2,735)

Assets Held for Sale: At January 2, 2011 and September 30, 2010, the Company had $12,668 and $12,452, respectively, included in Assets held for sale in its Condensed Consolidated Statements of Financial Position (Unaudited) consisting of certain assets primarily related to a former manufacturing facilities in Ningbo, China and in Brazil.

Intangible Assets: Intangible assets are recorded at cost or at fair value if acquired in a purchase business combination. Customer lists and proprietary technology intangibles are amortized, using the straight-line method, over their estimated useful lives of approximately 4 to 20 years. Excess of cost over fair value of net assets acquired (goodwill) and trade name intangibles are not amortized. Goodwill is tested for impairment at least annually, at the reporting unit level with such groupings being consistent with the Company s reportable segments. If an impairment is indicated, a write-down to fair value (normally measured by discounting estimated future cash flows) is recorded. Trade name intangibles are tested for impairment at least annually by comparing the fair value with the carrying value. Any excess of carrying value over fair value is recognized as an impairment loss in income from operations. The Company s annual impairment testing is completed at the August financial period end.

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

The Company s goodwill and indefinite lived trade name intangibles were tested in conjunction with the Company s realignment of reportable segments on October 1, 2010. The Company concluded that the implied fair values of its reporting units, which are the same as the Company s reporting segments, and indefinite lived trade name intangible assets were in excess of the carrying amounts of those assets, under both the Company s prior reportable segment structure and the current reportable segment structure, and, accordingly, no impairment of goodwill or indefinite lived trade name intangibles was recorded.

Shipping and Handling Costs: The Company incurred shipping and handling costs of $51,270 and $36,461 for the three month periods ended January 2, 2011 and January 3, 2010, respectively. These costs are included in Selling expenses in the accompanying Condensed Consolidated Statements of Operations (Unaudited). Shipping and handling costs include costs incurred with third-party carriers to transport products to customers as well as salaries and overhead costs related to activities to prepare the Company s products for shipment from its distribution facilities.

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

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

The Company has a broad range of customers including many large retail outlet chains, one of which accounts for a significant percentage of its sales volume. This customer represented approximately 24% and 21% of the Company s Net sales during the three month periods ended January 2, 2011 and January 3, 2010, respectively. This customer also represented approximately 12% and 15% of the Company s Trade accounts receivable, net at January 2, 2011 and September 30, 2010, respectively.

Approximately 49% and 51% of the Company s Net sales during the three month periods ended January 2, 2011 and January 3, 2010, respectively, occurred outside the United States. These sales and related receivables are subject to varying degrees of credit, currency, political and economic risk. The Company monitors these risks and makes appropriate provisions for collectibility based on an assessment of the risks present.

Stock-Based Compensation: On the Effective Date all of the existing common stock of the Predecessor Company was extinguished and deemed cancelled, including restricted stock and other stock-based awards.

In September 2009, the Successor Company s board of directors (the Board) adopted the 2009 Spectrum Brands Inc. Incentive Plan (the 2009 Plan). In conjunction with the Merger, the 2009 Plan was assumed by SB Holdings. As of September 30, 2010, up to 3,333 shares of common stock, net of forfeitures and cancellations, could have been issued under the 2009 Plan. After October 21, 2010, no further awards may be made under the 2009 Plan if (as described in greater detail below) a majority of the holders of the common stock of the Company eligible to vote thereon approve the Spectrum Brands Holdings, Inc. 2011 Omnibus Equity Award Plan (2011 Plan) prior to October 21, 2011.

In conjunction with the Merger, the Company assumed the Spectrum Brands Holdings, Inc. 2007 Omnibus Equity Award Plan (formerly known as the Russell Hobbs, Inc. 2007 Omnibus Equity Award Plan, as amended on June 24, 2008) (the 2007 RH Plan). As of September 30, 2010, up to 600 shares of common stock, net of forfeitures and cancellations, could have been issued under the 2007 RH Plan. After October 21, 2010, no further awards may be made under the 2007 RH Plan if (as described in greater detail below) a majority of the holders of the common stock of the Company eligible to vote thereon approve the 2011 Plan prior to October 21, 2011.

On October 21, 2010, the Company s Board of Directors adopted the 2011 Plan, subject to shareholder approval prior to October 21, 2011 and the Company intends to submit the 2011 Plan for shareholder approval in connection with its next Annual Meeting. Upon such shareholder approval, no further awards will be granted under the 2009 Plan and the 2007 RH Plan. 4,626 shares of common stock of the Company, net of cancellations, may be issued under the 2011 Plan. While the Company has begun granting awards under the 2011 Plan, the 2011 Plan (and awards granted thereunder) are subject to the approval by a majority of the holders of the common stock of the Company eligible to vote thereon prior to October 21, 2011.

Under ASC Topic 718: Compensation-Stock Compensation, (ASC 718), the Company is required to recognize expense related to the fair value of its employee stock awards.

Total stock compensation expense associated with restricted stock awards recognized by the Company during the three month periods ended January 2, 2011 and January 3, 2010 was $5,614, or $3,649, net of taxes, and $3,196, or $2,078, net of taxes, respectively.

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

The Company granted approximately 1,423 shares of restricted stock units during the three month period ended January 2, 2011. Of these grants, 15 restricted stock units are time-based and vest over a one year period and 18 restricted stock units are time-based and vest over a three year period. The remaining 1,390 shares are restricted stock units and are performance and time-based with 640 shares vesting over a one year period and 750 shares vesting over a three year period. The total market value of the restricted shares on the date of the grant was approximately $40,969.

The fair value of restricted stock is determined based on the market price of the Company s shares on the grant date. A summary of the status of the Company s non-vested restricted stock as of January 2, 2011 is as follows:

Restricted Stock	Shares	Weighted Average Grant Date Fair Value	Fair Value
Restricted stock at September 30, 2010	695	$ 25.23	$ 17,536
Granted	1,423	28.79	40,969
Vested	(341)	22.41	(7,642)
Restricted stock at January 2, 2011	1,777	$ 28.62	$ 50,863

Reorganization Items: In accordance with ASC Topic 852: *Reorganizations,* reorganization items are presented separately in the accompanying Condensed Consolidated Statements of Operations (Unaudited) and represent expenses, income, gains and losses that the Company has identified as directly relating to its voluntary petitions under Chapter 11 of the Bankruptcy Code. See Note 2, Voluntary Reorganization Under Chapter 11 in the Company s Annual Report on Form 10-K for the fiscal year ended September 30, 2010 for additional information regarding the Chapter 11 filing and subsequent emergence. Reorganization items expense, net for the three month period ended January 3, 2010 is summarized as follows:

	2010
Legal and professional fees	$ 3,536
Provision for rejected leases	110
Reorganization items expense, net	$ 3,646

Acquisition and Integration Related Charges: Acquisition and integration related charges reflected in Operating expenses in the accompanying Condensed Consolidated Statements of Operations (Unaudited) 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 Company s acquisitions.

The following table summarizes acquisition and integration related charges associated with the Merger incurred by the Company during the three month periods ended January 2, 2011 and January 3, 2010 are as follows:

	2011	**2010**
Legal and professional fees	$ 2,395	$ 2,431
Employee termination charges	3,752	
Integration costs	10,130	
Total Acquisition and integration related charges	$ 16,277	$ 2,431

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

Additionally, the Company incurred $178 of legal and professional fees associated with the acquisition of Seed Resources, LLC (Seed Resources) during the three month period ended January 2, 2011. (See Note 15, Acquisitions for information on the Seed Resources acquisition.)

3 OTHER COMPREHENSIVE LOSS

Comprehensive loss and the components of other comprehensive loss, net of tax, for the three month periods ended January 2, 2011 and January 3, 2010 are as follows:

	Three Months	
	2011	**2010**
Net loss	$ (19,758)	$ (60,249)
Other comprehensive loss:		
Foreign currency translation	(4,074)	(1,115)
Valuation allowance adjustments	643	(1,100)
Net unrealized gain (loss) on derivative instruments	4,179	(1,204)
Net change to derive comprehensive loss for the period	748	(3,419)
Comprehensive loss	$ (19,010)	$ (63,668)

Net exchange gains or losses resulting from the translation of assets and liabilities of foreign subsidiaries are accumulated in the accumulated other comprehensive income (AOCI) section of Shareholders equity. Also included are the effects of exchange rate changes on intercompany balances of a long-term nature and transactions designated as hedges of net foreign investments. The changes in accumulated foreign currency translation for the three month periods ended January 2, 2011 and January 3, 2010 were primarily attributable to the impact of translation of the net assets of the Company s European operations, primarily denominated in Euros and Pounds Sterling.

4 NET LOSS PER COMMON SHARE

Net loss per common share for the three month periods ended January 2, 2011 and January 3, 2010 is calculated based upon the following number of shares:

	Three Months	
	2011	**2010**
Basic	50,802	30,000
Effect of restricted stock and assumed conversion of options		
Diluted	50,802	30,000

For the three month periods ended January 2, 2011 and January 3, 2010, the Company has not assumed the exercise of common stock equivalents as the impact would be antidilutive.

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

5 INVENTORIES

Inventories for the Company, which are stated at the lower of cost or market, consisted of the following:

	January 2, 2011	September 30, 2010
Raw materials	$ 73,278	$ 62,857
Work-in-process	23,050	28,239
Finished goods	415,972	439,246
	$ 512,300	$ 530,342

6 GOODWILL AND INTANGIBLE ASSETS

Goodwill and intangible assets for the Company consist of the following:

	Global Batteries & Appliances	Global Pet Supplies	Home and Garden Business	Total
Goodwill:				
Balance at September 30, 2010	$ 268,420	$ 159,985	$ 171,650	$ 600,055
Acquisition of Seed Resources, LLC		10,029		10,029
Effect of translation	(1,726)	(1,257)		(2,983)
Balance at January 2, 2011	$ 266,694	$ 168,757	$ 171,650	$ 607,101
Intangible Assets:				
Trade names Not Subject to Amortization				
Balance at September 30, 2010	$ 569,945	$ 211,533	$ 76,000	$ 857,478
Acquisition of Seed Resources, LLC		1,100		1,100
Effect of translation	(3,262)	(2,887)		(6,149)
Balance at January 2, 2011	$ 566,683	$ 209,746	$ 76,000	$ 852,429
Intangible Assets Subject to Amortization				
Balance at September 30, 2010, net	$ 516,324	$ 230,248	$ 165,310	$ 911,882
Amortization during period	(8,277)	(3,824)	(2,218)	(14,319)
Effect of translation	(2,239)	(1,530)		(3,769)

Balance at January 2, 2011, net	$	505,808	$	224,894	$	163,092	$	893,794
Total Intangible Assets, net at January 2, 2011	$	1,072,491	$	434,640	$	239,092	$	1,746,223

Intangible assets subject to amortization include proprietary technology, customer relationships and certain trade names. The carrying value of technology assets was $59,145, net of accumulated amortization of $8,468 at January 2, 2011 and $60,792, net of accumulated amortization of $6,305 at September 30, 2010. The Company trade names subject to amortization relate to the valuation under fresh-start reporting and the Merger. The carrying value of these trade names was $142,799, net of accumulated amortization of $6,901 at January 2, 2011 and $145,939, net of accumulated amortization of $3,750 at September 30, 2010. Remaining intangible assets subject to amortization include customer relationship intangibles. The carrying value of customer relationships was $691,850, net of accumulated amortization of $47,300 at January 2, 2011 and $705,151, net of accumulated amortization of $35,865 at September 30, 2010. The useful life of the Company s intangible assets subject to amortization are 8 years for technology assets related to the Global Pet

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

Supplies segment, 9 to 17 years for technology assets associated with the Global Batteries & Appliances segment, 15 to 20 years for customer relationships of Global Batteries & Appliances, 20 years for customer relationships of the Home and Garden Business and Global Pet Supplies, 12 years for a trade name within the Global Batteries & Appliances segment and 4 years for a trade name within the Home and Garden Business segment.

Amortization expense for the three month periods ended January 2, 2011 and January 3, 2010 is as follows:

	Three Months	
	2011	**2010**
Proprietary technology amortization	$ 1,649	$ 1,545
Customer relationships amortization	9,530	8,791
Trade names amortization	3,140	31
	$ 14,319	$ 10,367

The Company estimates annual amortization expense for the next five fiscal years will approximate $55,630 per year.

7 DEBT

Debt consists of the following:

	January 2, 2011		September 30, 2010	
	Amount	**Rate**	**Amount**	**Rate**
Term Loan, U.S. Dollar, expiring June 16, 2016	$ 680,000	8.1%	$ 750,000	8.1%
9.5% Notes, due June 15, 2018	750,000	9.5%	750,000	9.5%
12% Notes, due August 28, 2019	245,031	12.0%	245,031	12.0%
ABL Revolving Credit Facility, expiring June 16, 2014	43,500	5.2%		4.1%
Other notes and obligations	26,255	11.5%	13,605	10.8%
Capitalized lease obligations	11,220	5.2%	11,755	5.2%
	1,756,006		1,770,391	
Original issuance discounts on debt	(24,294)		(26,624)	
Less current maturities	31,544		20,710	
Long-term debt	$ 1,700,168		$ 1,723,057	

In connection with the Merger, Spectrum Brands (i) entered into a new senior secured term loan pursuant to a new senior credit agreement (the Senior Credit Agreement) consisting of a $750,000 U.S. Dollar Term Loan due June 16,

2016 (the Term Loan), (ii) issued $750,000 in aggregate principal amount of 9.5% Senior Secured Notes maturing June 15, 2018 (the 9.5% Notes) and (iii) entered into a $300,000 U.S. Dollar asset based revolving loan facility due June 16, 2014 (the ABL Revolving Credit Facility and together with the Senior Credit Agreement, the Senior Credit Facilities and the Senior Credit Facilities together with the 9.5% Notes, the Senior Secured Facilities). The proceeds from the Senior Secured Facilities were used to repay Spectrum Brands then-existing senior term credit facility (the Prior Term Facility) and Spectrum Brands then-existing asset based revolving loan facility, to pay fees and expenses in connection with the refinancing and for general corporate purposes.

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

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

Senior Term Credit Facility

The Term Loan has a maturity date of June 16, 2016. Subject to certain mandatory prepayment events, the Term Loan is subject to repayment according to a scheduled amortization, with the final payment of all amounts outstanding, plus accrued and unpaid interest, due at maturity. Among other things, the Term Loan provides for a minimum Eurodollar interest rate floor of 1.5% and interest spreads over market rates of 6.5%.

The Senior Credit Agreement 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 Senior Credit Agreement contains customary restrictive covenants, including, but not limited to, restrictions on the Company s ability to incur additional indebtedness, create liens, make investments or specified payments, give guarantees, pay dividends, make capital expenditures and merge or acquire or sell assets. Pursuant to a guarantee and collateral agreement, the Company and its domestic subsidiaries have guaranteed their respective obligations under the Senior Credit Agreement 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.

The Term Loan was issued at a 2.00% discount and was recorded net of the $15,000 amount incurred. The discount is being amortized as an adjustment to the carrying value of principal with a corresponding charge to interest expense over the remaining life of the Senior Credit Agreement. During the Company s fiscal year ended September 30, 2010 (Fiscal 2010), the Company recorded $25,968 of fees in connection with the Senior Credit Agreement. The fees are classified as Debt issuance costs within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) and are amortized as an adjustment to interest expense over the remaining life of the Senior Credit Agreement. In connection with voluntary prepayments of $70,000 of term debt during the three month period ended January 2, 2011, the Company recorded accelerated amortization of portions of the unamortized discount and unamortized Debt issuance costs totaling $3,581 as an adjustment to increase interest expense.

At January 2, 2011 and September 30, 2010, the aggregate amount outstanding under the Term Loan totaled $680,000 and $750,000, respectively.

On February 1, 2011, the Company completed the refinancing of its Term Loan, which had an aggregate amount outstanding of $680,000, with a new Senior Secured Term Loan facility (the New Term Loan) at a lower interest rate. The New Term Loan, issued at par and with a maturity date of June 16, 2016, includes an interest rate of LIBOR plus 4%, with a LIBOR minimum of 1%.

9.5% Notes

At both January 2, 2011 and September 30, 2010, the Company had outstanding principal of $750,000 under the 9.5% Notes maturing June 15, 2018.

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

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

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

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

The Company is subject to certain limitations as a result of the Company s Fixed Charge Coverage Ratio under the 2018 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 credit facility debt beyond the Senior Credit Facilities. The Company does not expect its 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 its existing businesses, although no assurance can be given in this regard.

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

12% Notes

On August 28, 2009, in connection with emergence from the voluntary reorganization under Chapter 11 and pursuant to the Plan, the Company issued $218,076 in aggregate principal amount of 12% Notes maturing August 28, 2019. Semiannually, at its option, the Company may elect to pay interest on the 12% Notes in cash or as payment in kind, or PIK . PIK interest is added to principal upon the relevant semi-annual interest payment date. Under the Prior Term Facility, the Company agreed to make interest payments on the 12% Notes through PIK for the first three semi-annual interest payment periods. As a result of the refinancing of the Prior Term Facility the Company is no longer required to make interest payments as payment in kind after the semi-annual interest payment date of August 28, 2010. Effective with the payment date of August 28, 2010 the Company gave notice to the trustee that the interest payment due February 28, 2011 would be made in cash.

The Company may redeem all or a part of the 12% Notes, upon not less than 30 or more than 60 days notice, beginning August 28, 2012 at specified redemption prices. Further, the indenture governing the 12% Notes require the Company to make an offer, in cash, to repurchase all or a portion of the applicable

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

outstanding notes for a specified redemption price, including a redemption premium, upon the occurrence of a change of control of the Company, as defined in such indenture.

At January 2, 2011 and September 30, 2010, the Company had outstanding principal of $245,031 under the 12% Notes, including PIK interest of $26,955 added to principal during Fiscal 2010.

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

The Company is subject to certain limitations as a result of the Company s 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 credit facility debt beyond the Senior Credit Facilities. The Company does not expect its 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 its existing businesses, although no assurance can be given in this regard.

In connection with the Merger, the Company obtained the consent of the note holders to certain amendments to the 2019 Indenture (the Supplemental Indenture). The Supplemental Indenture became effective upon the closing of the Merger. Among other things, the Supplemental Indenture amended the definition of change in control to exclude the Harbinger Capital Partners Master Fund I, Ltd. (Harbinger Master Fund) and Harbinger Capital Partners Special Situations Fund, L.P. (Harbinger Special Fund) and, together with Harbinger Master Fund, the HCP Funds) and Global Opportunities Breakaway Ltd. (together with the HCP Funds, the Harbinger Parties) and increased the Company s ability to incur indebtedness up to $1,850,000.

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

ABL Revolving Credit Facility

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

subject to the terms and limits described therein.

The Revolving Loans may be drawn, repaid and reborrowed without premium or penalty. The proceeds of borrowings under the ABL Revolving Credit Facility are to be used for costs, expenses and fees in

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

connection with the ABL Revolving Credit Facility, for working capital requirements of the Company and its subsidiaries, restructuring costs, and other general corporate purposes.

The ABL Revolving Credit Facility carries an interest rate, at the Company s option, which is subject to change based on availability under the facility, of either: (a) the base rate plus currently 2.75% per annum or (b) the reserve-adjusted LIBOR rate (the Eurodollar Rate) plus currently 3.75% per annum. No amortization will be required with respect to the ABL Revolving Credit Facility. The ABL Revolving Credit Facility will mature on June 16, 2014. 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.

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

During Fiscal 2010, the Company recorded $9,839 of fees in connection with the ABL Revolving Credit Facility. The fees are classified as Debt issuance costs within the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) and are amortized as an adjustment to interest expense over the remaining life of the ABL Revolving Credit Facility.

As a result of borrowings and payments under the ABL Revolving Credit Facility at January 2, 2011, the Company had aggregate borrowing availability of approximately $149,954, net of lender reserves of $28,972.

At January 2, 2011, the Company had outstanding letters of credit of $36,464 under the ABL Revolving Credit Facility.

As a result of borrowings and payments under the ABL Revolving Credit Facility at September 30, 2010, the Company had aggregate borrowing availability of approximately $225,255, net of lender reserves of $28,972.

8 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are used by the Company principally in the management of its interest rate, foreign currency and raw material price exposures. The Company does not hold or issue derivative financial instruments for trading purposes. When hedge accounting is elected at inception, the Company formally designates the financial instrument as a hedge of a specific underlying exposure if such criteria are met, and documents both the risk management objectives and strategies for undertaking the hedge. The Company formally assesses, both at the inception and at least quarterly thereafter, whether the financial instruments that are used in hedging transactions are effective at offsetting changes in the forecasted cash flows of the related underlying exposure. Because of the high degree of effectiveness between the hedging instrument and the underlying exposure being hedged, fluctuations in the value of the derivative instruments are generally offset by changes in the forecasted cash flows of the underlying exposures being hedged. Any ineffective portion of a financial instrument s change in fair value is immediately recognized in earnings. For derivatives that are not designated as cash flow hedges, or do not qualify for hedge accounting treatment, the change in the fair value is also immediately recognized in earnings.

Under ASC Topic 815: *Derivatives and Hedging,* (ASC 815), entities are required to provide enhanced disclosures for derivative and hedging activities.

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

The Company s fair value of outstanding derivative contracts recorded as assets in the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) were as follows:

Asset Derivatives		January 2, 2011	September 30, 2010
Derivatives designated as hedging instruments under ASC 815:			
Commodity contracts	Receivables Other	$ 3,165	$ 2,371
Commodity contracts	Deferred charges and other	1,765	1,543
Foreign exchange contracts	Receivables Other	50	20
Foreign exchange contracts	Deferred charges and other	416	55
Total asset derivatives designated as hedging instruments under ASC 815		$ 5,396	$ 3,989
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Receivables Other	44	
Total asset derivatives		$ 5,440	$ 3,989

The Company s fair value of outstanding derivative contracts recorded as liabilities in the accompanying Condensed Consolidated Statements of Financial Position (Unaudited) were as follows:

Liability Derivatives		January 2, 2011	September 30, 2010
Derivatives designated as hedging instruments under ASC 815:			
Interest rate contracts	Accounts payable	$ 2,584	$ 3,734
Interest rate contracts	Accrued interest	842	861
Interest rate contracts	Other long term liabilities	2,068	2,032
Foreign exchange contracts	Accounts payable	4,068	6,544
Foreign exchange contracts	Other long term liabilities	128	1,057
		$ 9,690	$ 14,228

Total liability derivatives designated as hedging instruments under ASC 815			
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Accounts payable	7,762	9,698
Foreign exchange contracts	Other long term liabilities	13,143	20,887
Total liability derivatives		$ 30,595	$ 44,813

Cash Flow Hedges

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

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

The following table summarizes the impact of derivative instruments on the accompanying Condensed Consolidated Statements of Operations (Unaudited) for the three month period ended January 2, 2011, pretax:

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Commodity contracts	$ 2,023	Cost of goods sold	$ 550	Cost of goods sold	$ 1
Interest rate contracts	7	Interest expense	(849)	Interest expense	(101)
Foreign exchange contracts	(389)	Net sales	(119)	Net sales	
Foreign exchange contracts	1,942	Cost of goods sold	(2,125)	Cost of goods sold	
Total	$ 3,583		$ (2,543)		$ (100)

The following table summarizes the impact of derivative instruments on the accompanying Condensed Consolidated Statements of Operations (Unaudited) for the three month period ended January 3, 2010 pretax:

Location of Gain (Loss) Recognized in Income on	Amount of

Derivatives in ASC 815 Cash Flow Hedging Relationships	**Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)**	**Location of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)**	**Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)**	**Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)**	**Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)**
Commodity contracts	$ 3,656	Cost of goods sold	$ 331	Cost of goods sold	$ 71
Interest rate contracts	(5,753)	Interest expense	(1,238)	Interest expense	
Foreign exchange contracts	(119)	Net sales	(94)	Net sales	
Foreign exchange contracts	(421)	Cost of goods sold	(728)	Cost of goods sold	
Total	$ (2,637)		$ (1,729)		$ 71

Derivative Contracts

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

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

periods ended January 2, 2011 and January 3, 2010, the Company recognized the following respective gains (losses) on derivative contracts:

Derivatives Not Designated as Hedging Instruments Under ASC 815	2011	2010	Location of Gain or (Loss) Recognized in Income on Derivatives
Commodity contracts		42	Cost of goods sold
Foreign exchange contracts	9,058	(1,830)	Other (income) expense, net
Total	$ 9,058	$ (1,788)	

Credit Risk

The Company is exposed to the default risk of the counterparties with which the Company transacts. The Company monitors counterparty credit risk on an individual basis by periodically assessing each such counterparty s credit rating exposure. The maximum loss due to credit risk equals the fair value of the gross asset derivatives which are primarily concentrated with a foreign financial institution counterparty. The Company considers these exposures when measuring its credit reserve on its derivative assets, which was $83 and $75 at January 2, 2011 and September 30, 2010, respectively. Additionally, the Company does not require collateral or other security to support financial instruments subject to credit risk.

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

Derivative Financial Instruments

Cash Flow Hedges

The Company uses interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the changes in fair value recorded in AOCI and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or receivables, respectively, and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. At January 2, 2011, the Company had a portfolio of USD-denominated interest rate swaps outstanding which effectively fixes the interest on floating rate debt, exclusive of lender spreads as follows: 2.25% for a notional principal amount of $300,000 through December 2011 and 2.29% for a notional principal amount of $300,000 through January 2012. At September 30, 2010, the Company had a portfolio of U.S. dollar-denominated interest rate swaps outstanding which effectively fixes

the interest on floating rate debt, exclusive of lender spreads as follows: 2.25% for a notional principal amount of $300,000 through December 2011 and 2.29% for a notional principal amount of $300,000 through January 2012 (the U.S. dollar swaps). The derivative net loss on these contracts recorded in AOCI by the Company at January 2, 2011 was $(2,144), net of tax benefit of $1,314. The derivative net (loss) on the U.S. dollar swaps contracts recorded in AOCI by the Company at September 30, 2010 was $(2,675), net of tax benefit of $1,640. At January 2, 2011, the portion of derivative net losses estimated to be reclassified from AOCI into earnings by the Company over the next 12 months is $862, net of tax.

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

The Company periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign denominated third party and intercompany sales or payments. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Australian Dollars, Brazilian Reals, Canadian Dollars or Japanese Yen. These foreign exchange contracts are cash flow hedges of fluctuating foreign exchange related to sales or product or raw material purchases. Until the sale or purchase is recognized, the fair value of the related hedge is recorded in AOCI and as a derivative hedge asset or liability, as applicable. At the time the sale or purchase is recognized, the fair value of the related hedge is reclassified as an adjustment to Net sales or purchase price variance in Cost of goods sold. At January 2, 2011 the Company had a series of foreign exchange derivative contracts outstanding through June 2012 with a contract value of $239,830. At September 30, 2010 the Company had a series of foreign exchange derivative contracts outstanding through June 2012 with a contract value of $299,993. The derivative net loss on these contracts recorded in AOCI by the Company at January 2, 2011 was $(2,638), net of tax benefit of $1,091. The derivative net (loss) on these contracts recorded in AOCI by the Company at September 30, 2010 was $(5,322), net of tax benefit of $2,204. At January 2, 2011, the portion of derivative net losses estimated to be reclassified from AOCI into earnings by the Company over the next 12 months is $2,850, net of tax.

The Company is exposed to risk from fluctuating prices for raw materials, specifically zinc used in its manufacturing processes. The Company hedges a portion of the risk associated with these materials through the use of commodity swaps. The hedge contracts are designated as cash flow hedges with the fair value changes recorded in AOCI and as a hedge asset or liability, as applicable. The unrecognized changes in fair value of the hedge contracts are reclassified from AOCI into earnings when the hedged purchase of raw materials also affects earnings. The swaps effectively fix the floating price on a specified quantity of raw materials through a specified date. At January 2, 2011 the Company had a series of such swap contracts outstanding through September 2012 for 12 tons with a contract value of $23,794. At September 30, 2010, the Company had a series of such swap contracts outstanding through September 2012 for 15 tons with a contract value of $28,897. The derivative net gain on these contracts recorded in AOCI by the Company at January 2, 2011 was $3,214, net of tax expense of $1,716. The derivative net gain on these contracts recorded in AOCI by the Company at September 30, 2010 was $2,256, net of tax expense of $1,201. At January 2, 2011, the portion of derivative net gains estimated to be reclassified from AOCI into earnings by the Company over the next 12 months is $2,066, net of tax.

Derivative Contracts

The Company periodically enters into forward and swap foreign exchange contracts to economically hedge the risk from third party and intercompany payments resulting from existing obligations. These obligations generally require the Company to exchange foreign currencies for U.S. Dollars, Euros or Australian Dollars. These foreign exchange contracts are fair value hedges of a related liability or asset recorded in the accompanying Condensed Consolidated Statements of Financial Position (Unaudited). The gain or loss on the derivative hedge contracts is recorded in earnings as an offset to the change in value of the related liability or asset at each period end. At January 2, 2011 and September 30, 2010 the Company had $305,185 and $333,562, respectively, of such foreign exchange derivative notional value contracts outstanding.

9 FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC Topic 820: *Fair Value Measurements and Disclosures,* (ASC 820), establishes a new framework for measuring fair value and expands related disclosures. Broadly, the ASC 820 framework requires fair value to be

determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. ASC 820 establishes market or observable inputs as the preferred source of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. The

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

Company utilizes valuation techniques that attempt to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of the fair values considers various factors, including closing exchange or over-the-counter market pricing quotations, time value and credit quality factors underlying options and contracts. The fair value of certain derivative financial instruments is estimated using pricing models based on contracts with similar terms and risks. Modeling techniques assume market correlation and volatility, such as using prices of one delivery point to calculate the price of the contract s different delivery point. The nominal value of interest rate transactions is discounted using applicable forward interest rate curves. In addition, by applying a credit reserve which is calculated based on credit default swaps or published default probabilities for the actual and potential asset value, the fair value of the Company s derivative financial instruments assets reflects the risk that the counterparties to these contracts may default on the obligations. Likewise, by assessing the requirements of a reserve for non-performance which is calculated based on the probability of default by the Company, the Company adjusts its derivative contract liabilities to reflect the price at which a potential market participant would be willing to assume the Company s liabilities. The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the year.

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

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

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

Level 3 Significant inputs to the valuation model are unobservable.

The Company maintains policies and procedures to value instruments using the best and most relevant data available. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls must be determined based on the lowest level input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability. In addition, the Company has risk management teams that review valuation, including independent price validation for certain instruments. Further, in other instances, the Company retains independent pricing vendors to assist in valuing certain instruments.

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

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

The Company s net derivative portfolio as of January 2, 2011, contains Level 2 instruments and represents commodity, interest rate and foreign exchange contracts.

	Level 1	Level 2	Level 3	Total
Assets:				
Commodity contracts	$	$ 4,930	$	$ 4,930
Total Assets	$	$ 4,930	$	$ 4,930
Liabilities:				
Interest rate contracts	$	$ (5,494)	$	$ (5,494)
Foreign exchange contracts, net		(24,591)	$	(24,591)
Total Liabilities	$	$ (30,085)	$	$ (30,085)

The Company s net derivative portfolio as of September 30, 2010, contains Level 2 instruments and represents commodity, interest rate and foreign exchange contracts.

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

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

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

(Level 3). (See also Note 2, Significant Accounting Policies Intangible Assets, for further details on impairment testing.)

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

	January 2, 2011		**September 30, 2010**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Total debt	$ (1,731,712)	$ (1,860,569)	$ (1,743,767)	$ (1,868,754)
Interest rate swap agreements	(5,494)	(5,494)	(6,627)	(6,627)
Commodity swap and option agreements	4,930	4,930	3,914	3,914
Foreign exchange forward agreements	(24,591)	(24,591)	(38,111)	(38,111)

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

10 EMPLOYEE BENEFIT PLANS

Pension Benefits

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

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

Other Benefits

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

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

The Company s results of operations for the three month periods ended January 2, 2011 and January 3, 2010 reflect the following pension and deferred compensation benefit costs:

Components of net periodic pension and other deferred compensation benefit costs	Three Months 2011	Three Months 2010
Service cost	$ 781	$ 725
Interest cost	2,557	1,813

Expected return on assets	(1,965)	(1,272)
Amortization of prior service cost		1
Recognized net actuarial loss	97	1
Employee contributions	(129)	(88)
Net periodic benefit cost	$ 1,341	$ 1,180

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

Pension and deferred compensation contributions	**Three Months 2011**	**2010**
Contributions made during period	$ 914	$ 359

The following table sets forth the fair value of the Company s pension plan assets as of January 2, 2011 segregated by level within the fair value hierarchy (See Note 9 Fair Value of Financial Instruments, for discussion of the fair value hierarchy and fair value principles):

	Level 1	**Level 2**	**Level 3**	**Total**
U.S. Defined Benefit Plan Assets:				
Common collective trust equity	$	$ 33,936	$	$ 33,936
Common collective trust fixed income		12,640		12,640
Total U.S. Defined Benefit Plan Assets	$	$ 46,576	$	$ 46,576
International Defined Benefit Plan Assets:				
Common collective trust equity	$	$ 30,250	$	$ 30,250
Common collective trust fixed income		10,142		10,142
Insurance contracts general fund		38,734		38,734
Other		3,677		3,677
Total International Defined Benefit Plan Assets	$	$ 82,803	$	$ 82,803

The following table sets forth the fair value of the Company s pension plan assets as of September 30, 2010 segregated by level within the fair value hierarchy:

	Level 1	**Level 2**	**Level 3**	**Total**
U.S. Defined Benefit Plan Assets:				
Common collective trust equity	$	$ 28,168	$	$ 28,168
Common collective trust fixed income		16,116		16,116
Total U.S. Defined Benefit Plan Assets	$	$ 44,284	$	$ 44,284
International Defined Benefit Plan Assets:				
Common collective trust equity	$	$ 28,090	$	$ 28,090
Common collective trust fixed income		9,725		9,725
Insurance contracts general fund		40,347		40,347

Other		3,120		3,120
Total International Defined Benefit Plan Assets	$	$ 81,282	$	$ 81,282

The Company sponsors a defined contribution pension plan for its domestic salaried employees, which allows participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. Prior to April 1, 2009 the Company contributed annually from 3% to 6% of participants compensation based on age or service, and had the ability to make additional discretionary contributions. The Company suspended all contributions to its U.S. subsidiaries defined contribution pension plans effective April 1, 2009 through December 31, 2009. Effective January 1, 2010 the Company reinstated its annual contribution as described above. The Company also sponsors defined contribution pension plans for employees of certain foreign subsidiaries. Company contributions charged to operations, including discretionary amounts, for the three month periods ended January 2, 2011 and January 3, 2010 were $1,411 and $99, respectively.

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

11 INCOME TAXES

The Company files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions and is subject to ongoing examination by the various taxing authorities. The Company s major taxing jurisdictions are the U.S., United Kingdom and Germany. In the U.S. federal tax filings for years prior to and including the Company s fiscal year ended September 30, 2006 are closed. However, the federal net operating loss carryforward from the Company s fiscal year ended September 30, 2006 is subject to Internal Revenue Service (IRS) examination until the year that such net operating loss carryforward is utilized and that year is closed for audit. The Company s fiscal years ended September 30, 2007, 2008, 2009, and 2010 remain open to examination by the IRS. Filings in various U.S. state and local jurisdictions are also subject to audit and to date no significant audit matters have arisen.

In the U.S. federal tax filings for years prior to and including Russell Hobbs fiscal year ended June 30, 2008 are closed. However, the federal net operating loss carryforward from Russell Hobbs fiscal year ended June 30, 2008 is subject to IRS examination until the year that such net operating loss carryforward is utilized and that year is closed for audit. Russell Hobbs fiscal year ended June 30, 2009 remains open to examination by the IRS. Filings in various U.S. state and local jurisdictions are also subject to audit and to date no significant audit matters have arisen.

12 SEGMENT RESULTS

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

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

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

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

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

The financial information presented herein reflects the impact of all of the preceding segment structure changes for all periods presented.

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

Segment information for the three month periods ended January 2, 2011 and January 3, 2010 is as follows:

	Three Months	
	2011	**2010**
Net sales to external customers		
Global Batteries & Appliances	$ 696,572	$ 428,671
Global Pet Supplies	137,045	136,995
Home and Garden Business	27,450	26,274
Total segments	$ 861,067	$ 591,940

	Three Months	
	2011	**2010**
Segment profit (loss)		
Global Batteries & Appliances	$ 93,299	$ 47,704
Global Pet Supplies	16,239	1,386
Home and Garden Business	(6,831)	(9,580)
Total segments	102,707	39,510
Corporate expense	11,418	11,893
Acquisition and integration related charges	16,455	2,431
Restructuring and related charges	5,565	6,427
Interest expense	53,095	49,482
Other expense, net	889	646
Income (loss) from continuing operations before reorganization items and income taxes	$ 15,285	$ (31,369)

	January 2, 2011	**September 30, 2010**
Segment total assets		
Global Batteries & Appliances	$ 2,345,192	$ 2,477,091
Global Pet Supplies	843,908	839,191
Home and Garden Business	500,482	496,143
Total segments	3,689,582	3,812,425
Corporate	56,792	61,179

Total assets at period end	$ 3,746,374	$ 3,873,604

13 RESTRUCTURING AND RELATED CHARGES

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

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

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

The following table summarizes restructuring and related charges incurred by segment for the three month periods ended January 2, 2011 and January 3, 2010:

	Three Months	
	2011	**2010**
Cost of goods sold:		
Global Batteries & Appliances	$ (150)	$ 847
Home and Garden Business		38
Global Pet Supplies	744	766
Total restructuring and related charges in cost of goods sold	594	1,651
Operating expense:		
Global Batteries & Appliances	25	(938)
Home and Garden Business	650	6,343
Global Pet Supplies	2,302	528
Corporate	1,994	(1,157)
Total restructuring and related charges in operating expense	4,971	4,776
Total restructuring and related charges	$ 5,565	$ 6,427

2009 Restructuring Initiatives

The Company implemented a series of initiatives within the Global Batteries & Appliances segment, the Global Pet Supplies segment and the Home and Garden Business segment to reduce operating costs as well as evaluate the Company s opportunities to improve its capital structure (the Global Cost Reduction Initiatives). These initiatives include headcount reductions within each of the Company s segments and the exit of certain facilities in the U.S. related to the Global Pet Supplies and Home and Garden Business segment. These initiatives also included consultation, legal and accounting fees related to the evaluation of the Company s capital structure. The Company recorded $3,729 and $7,721 of pretax restructuring and related charges during the three month periods ended January 2, 2011 and January 3, 2010, respectively, related to the Global Cost Reduction Initiatives. Costs associated with these initiatives, which are expected to be incurred through January 31, 2015, are projected to total approximately $66,200.

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

Global Cost Reduction Initiatives Summary

The following table summarizes the remaining accrual balance associated with the 2009 initiatives and the activity during the three month period ended January 2, 2011:

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2010	$ 6,447	$ 4,005	$ 10,452
Provisions	2,232	32	2,264
Cash expenditures	(1,609)	(621)	(2,230)
Non-cash items	184	(243)	(59)
Accrual balance at January 2, 2011	$ 7,254	$ 3,173	$ 10,427
Expensed as incurred(A)	$ 49	$ 1,416	$ 1,465

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

The following table summarizes the expenses as incurred during the three month period ending January 2, 2011, the cumulative amount incurred to date and the total future expected costs incurred associated with the Global Cost Reduction Initiatives by operating segment:

	Global Batteries & Appliances	Global Pet Supplies	Home and Garden Business	Corporate	Total
Restructuring and related charges during the three month period ended January 2, 2011	$ 33	$ 3,046	$ 650	$	$ 3,729
Restructuring and related charges since initiative inception	$ 7,072	$ 13,256	$ 14,654	$ 7,591	$ 42,573
Total future restructuring and related charges expected	$	$ 18,000	$ 5,625	$	$ 23,625

2008 Restructuring Initiatives

The Company implemented an initiative within the Global Batteries & Appliances segment to reduce operating costs and rationalize the Company s manufacturing structure. These initiatives include the plan to exit the Company s Ningbo, China battery manufacturing facility (the Ningbo Exit Plan). The Company recorded $(150) and $696 of

pretax restructuring and related charges during the three month periods ended January 2, 2011 and January 3, 2010, respectively, in connection with the Ningbo Exit Plan. The Company has recorded pretax restructuring and related charges of $29,378 since the inception of the Ningbo Exit Plan, which are now substantially complete.

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

Ningbo Exit Plan Summary

The following table summarizes the remaining accrual balance associated with the 2008 initiatives and the activity during the three month period ended January 2, 2011:

	Other Costs
Accrual balance at September 30, 2010	$ 491
Provisions	26
Cash expenditures	(95)
Accrual balance at January 2, 2011	$ 422
Expensed as incurred(A)	$ (176)

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

2007 Restructuring Initiatives

In Fiscal 2007, the Company began managing its business in three vertically integrated, product-focused reporting segments; Global Batteries & Personal Care (which, effective October 1, 2010, includes the appliance portion of Russell Hobbs, collectively, Global Batteries & Appliances), Global Pet Supplies and the Home and Garden Business. As part of this realignment, the Company s Global Operations organization, previously included in corporate expense, consisting of research and development, manufacturing management, global purchasing, quality operations and inbound supply chain, is now included in each of the operating segments. In connection with these changes the Company undertook a number of cost reduction initiatives, primarily headcount reductions, at the corporate and operating segment levels (the Global Realignment Initiatives). The Company recorded $1,986 and $(2,177) of pretax restructuring and related charges during the three month periods ended January 2, 2011 and January 3, 2010, respectively, in connection with the Global Realignment Initiatives. Costs associated with these initiatives, which are expected to be incurred through June 30, 2011, relate primarily to severance and are projected at approximately $91,300, the majority of which are cash costs.

The following table summarizes the remaining accrual balance associated with the Global Realignment Initiatives and the activity during the three month period ended January 2, 2011:

Global Realignment Initiatives Summary

	Termination Benefits	Other Costs	Total

Accrual balance at September 30, 2010	$ 8,721	$ 2,281	$ 11,002
Provisions	1,120	527	1,647
Cash expenditures	(4,486)	(309)	(4,795)
Non-cash items	(706)	225	(481)
Accrual balance at January 2, 2011	$ 4,649	$ 2,724	$ 7,373
Expensed as incurred(A)	$	$ 339	$ 339

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

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

The following table summarizes the expenses as incurred during the three month period ended January 2, 2011, the cumulative amount incurred to date and the total future expected costs incurred associated with the Global Realignment Initiatives by operating segment:

	Global Batteries & Appliances	Home and Garden Business	Corporate	Total
Restructuring and related charges during the three month period ended January 2, 2011	$ (8)	$	$ 1,994	$ 1,986
Restructuring and related charges since initiative inception	$ 46,661	$ 6,762	$ 37,150	$ 90,573
Total future restructuring and related charges expected	$	$	$ 725	$ 725

2006 Restructuring Initiatives

The Company implemented a series of initiatives within the Global Batteries & Appliances segment in Europe to reduce operating costs and rationalize the Company s manufacturing structure (the European Initiatives). These initiatives, which are substantially complete, include the relocation of certain operations at the Ellwangen, Germany packaging center to the Dischingen, Germany battery plant and restructuring its sales, marketing and support functions. The Company recorded no pretax restructuring and related charges during both the three month periods ended January 2, 2011 and January 3, 2010 in connection with the European Initiatives. The Company has recorded pretax restructuring and related charges of $26,965 since the inception of the European Initiatives.

The following table summarizes the remaining accrual balance associated with the European Initiatives and the activity during the three month period ended January 2, 2011:

European Initiatives Summary

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2010	$ 1,801	$ 47	$ 1,848
Cash expenditures	(124)	(37)	(161)
Non-cash items	(53)	(1)	(54)
Accrual balance at January 2, 2011	$ 1,624	$ 9	$ 1,633

14 COMMITMENTS AND CONTINGENCIES

The Company has provided for the estimated costs associated with environmental remediation activities at some of its current and former manufacturing sites. The Company believes that any additional liability in excess of the amounts provided of approximately $9,360, which may result from resolution of these matters, will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

In December 2009, San Francisco Technology, Inc. filed an action in the Federal District Court for the Northern District of California against the Company, as well as a number of unaffiliated defendants, claiming that each of the defendants had falsely marked patents on certain of its products in violation of Article 35, Section 292 of the U.S. Code and seeking to have civil fines imposed on each of the defendants for such

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

claimed violations. The Company is reviewing the claims but is unable to estimate any possible losses at this time.

Applica Consumer Products, Inc., (Applica) a subsidiary of the Company is a defendant in NACCO Industries, Inc. et al. v. Applica Incorporated et al., Case No. C.A. 2541-VCL, which was filed in the Court of Chancery of the State of Delaware in November 2006. The original complaint in this action alleged a claim for, among other things, breach of contract against Applica and a number of tort claims against certain entities affiliated with the HCP Funds. The claims against Applica related to the alleged breach of the merger agreement between Applica and NACCO Industries, Inc. (NACCO) and one of its affiliates, which agreement was terminated following Applica s receipt of a superior merger offer from the HCP Funds. On October 22, 2007, the plaintiffs filed an amended complaint asserting claims against Applica for, among other things, breach of contract and breach of the implied covenant of good faith relating to the termination of the NACCO merger agreement and asserting various tort claims against Applica and the HCP Funds. The original complaint was filed in conjunction with a motion preliminarily to enjoin the HCP Funds acquisition of Applica. On December 1, 2006, plaintiffs withdrew their motion for a preliminary injunction. In light of the consummation of Applica s merger with affiliates of the HCP Funds in January 2007 (Applica is currently a subsidiary of Russell Hobbs), the Company believes that any claim for specific performance is moot. Applica filed a motion to dismiss the amended complaint in December 2007. Rather than respond to the motion to dismiss the amended complaint, NACCO filed a motion for leave to file a second amended complaint, which was granted in May 2008. Applica moved to dismiss the second amended complaint, which motion was granted in part and denied in part in December 2009.

The trial is currently scheduled for February 2011. The Company may be unable to resolve the disputes successfully or without incurring significant costs and expenses. As a result, Russell Hobbs and Harbinger Master Fund have entered into an indemnification agreement, dated as of February 9, 2010, by which Harbinger Master Fund has agreed, effective upon the consummation of the Merger, to indemnify Russell Hobbs, its subsidiaries and any entity that owns all of the outstanding voting stock of Russell Hobbs against any out-of-pocket losses, costs, expenses, judgments, penalties, fines and other damages in excess of $3,000 incurred with respect to this litigation and any future litigation or legal action against the indemnified parties arising out of or relating to the matters which form the basis of this litigation. The Company is reviewing the claims but is unable to estimate any possible losses at this time.

Applica is a defendant in three asbestos lawsuits in which the plaintiffs have alleged injury as the result of exposure to asbestos in hair dryers distributed by that subsidiary over 20 years ago. Although Applica never manufactured such products, asbestos was used in certain hair dryers distributed by it prior to 1979. The Company believes that these actions are without merit, but may be unable to resolve the disputes successfully without incurring significant expenses which the Company is unable to estimate at this time. At this time, the Company does not believe it has coverage under its insurance policies for the asbestos lawsuits.

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

The Company does not believe that any other matters or proceedings presently pending will have a material adverse effect on its results of operations, financial condition, liquidity or cash flows.

15 ACQUISITIONS

Russell Hobbs

On June 16, 2010, the Company consummated the Merger, pursuant to which Spectrum Brands became a wholly-owned subsidiary of the Company and Russell Hobbs became a wholly owned subsidiary of Spectrum Brands. Headquartered in Miramar, Florida, Russell Hobbs is a designer, marketer and distributor of a broad

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

range of branded small household appliances. Russell Hobbs markets and distributes small kitchen and home appliances, pet and pest products and personal care products. Russell Hobbs has a broad portfolio of recognized brand names, including Black & Decker, George Foreman, Russell Hobbs, Toastmaster, LitterMaid, Farberware, Breadman and Juiceman. Russell Hobbs customers include mass merchandisers, specialty retailers and appliance distributors primarily in North America, South America, Europe and Australia.

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

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

Preliminary Purchase Price Allocation

The total purchase price for Russell Hobbs was allocated to the preliminary net tangible and intangible assets based upon their preliminary fair values at June 16, 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 the 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. The Company expects to continue to obtain information to assist it in determining the fair values of the net assets

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

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(A)	120,079
Other assets	15,752
Total assets acquired	$ 822,117
Current liabilities	142,046
Total debt	18,970
Long-term liabilities	63,522
Total liabilities assumed	$ 224,538
Net assets acquired	$ 597,579

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

Preliminary Pre-Acquisition Contingencies Assumed

The Company has evaluated and continues to evaluate pre-acquisition contingencies relating to Russell Hobbs that existed as of the acquisition date. Based on the evaluation to date, the Company has preliminarily determined that certain pre-acquisition contingencies are probable in nature and estimable as of the acquisition date. Accordingly, the Company has preliminarily recorded its best estimates for these contingencies as part of the preliminary purchase price allocation for Russell Hobbs. The Company continues to gather information relating to all pre-acquisition contingencies that it has assumed from Russell Hobbs. Any changes to the pre-acquisition contingency amounts recorded during the measurement period will be included in the purchase price allocation. Subsequent to the end of the measurement period any adjustments to pre-acquisition contingency amounts will be reflected in the Company s results of operations.

Certain estimated values are not yet finalized and are subject to change, which could be significant. The Company will finalize the amounts recognized as it obtains the information necessary to complete its analysis during the measurement period. The following items are provisional and subject to change:

amounts for legal contingencies, pending the finalization of the Company s examination and evaluation of the portfolio of filed cases;

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.

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

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

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

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

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

Certain indefinite-lived intangible assets were valued using a relief from royalty methodology. Customer relationships and certain definite-lived intangible assets were valued using a multi-period excess earnings method. Certain intangible assets are subject to sensitive business factors of which only a portion are within control of the Company s management. The total fair value of indefinite and definite lived intangibles was $363,327 as of June 16, 2010. A summary of the significant key inputs were as follows:

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

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

The Company valued a trade name license agreement using the income approach, specifically the multi-period excess earnings method. In determining the fair value of the trade name license agreement, the multi-period excess earnings approach values the intangible asset at the present value of the incremental after-tax cash flows attributable only to the trade name license agreement after deducting contributory asset charges. The incremental after-tax cash flows attributable to the subject intangible asset are then discounted to their present value. In estimating the fair value of the trade name license agreement net sales were

estimated to grow at a rate of (3)%-1% annually. The Company assumed a twelve year useful life of the trade name license agreement. Income taxes were estimated at 37% and amounts were discounted using a rate of 15.5%. The trade name license agreement was valued at $149,200 under this approach.

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

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

Supplemental Pro Forma Information

The following reflects the Company s pro forma results had the results of Russell Hobbs been included for all periods beginning after September 30, 2009.

	Three Months	
	2011	**2010**
Net sales:		
Reported Net sales	$ 861,067	$ 591,940
Russell Hobbs adjustment		248,689
Pro forma Net sales	$ 861,067	$ 840,629
(Loss) income from continuing operations:		
Reported (Loss) income from continuing operations	$ (19,758)	$ (57,514)
Russell Hobbs adjustment		19,373
Pro forma Loss from continuing operations	$ (19,758)	$ (38,141)
Basic and Diluted earnings per share from continuing operations(A):		
Reported Basic and Diluted earnings per share from continuing operations	$ (0.39)	$ (1.92)
Russell Hobbs adjustment		0.65
Pro forma basic and diluted earnings per share from continuing operations	$ (0.39)	$ (1.27)

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

Seed Resources, LLC

On December 3, 2010 the Company completed the $10,524 cash acquisition of Seed Resources, LLC (Seed Resources). Seed Resources is a leading wild seed cake producer through its Birdola premium brand seed cakes. This acquisition was not significant individually. In accordance with ASC 805, the Company accounted for the acquisition by applying the acquisition method of accounting. The acquisition method of accounting requires that the consideration transferred in a business combination be measured at fair value as of the closing date of the acquisition.

The results of Seed Resources operations since December 3, 2010 are included in the Company s Condensed Consolidated Statements of Operations (Unaudited) and are reported as part of the Global Pet

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

Supplies business segment. The preliminary purchase price of $12,200, including a $1,100 trade name intangible asset and $10,029 of goodwill, for this acquisition was based upon a preliminary valuation. The Company s estimates and assumptions for this acquisition are subject to change as the Company obtains additional information for its estimates during the respective measurement period. The primary areas of the purchase price allocation that are not yet finalized relate to certain legal matters, income and non-income based taxes and residual goodwill.

16 RELATED PARTY TRANSACTIONS

Merger Agreement and Exchange Agreement

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

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

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

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

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

- for so long as the Harbinger Parties own 40% or more of the outstanding voting securities of SB Holdings, the Harbinger Parties and HRG will vote their shares of SB Holdings common stock to effect the structure of the SB Holdings board of directors as described in the Stockholder Agreement;

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

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

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

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

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

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

Other Agreements

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

In connection with the Mergers, Russell Hobbs and Harbinger Master Fund entered into an indemnification agreement, dated as of February 9, 2010 (the Indemnification Agreement), by which Harbinger Master Fund agreed, among other things and subject to the terms and conditions set forth therein, to guarantee the obligations of Russell Hobbs to pay (i) a reverse termination fee to Spectrum Brands under the merger agreement and (ii) monetary damages awarded to Spectrum Brands in connection with any willful and material breach by Russell Hobbs of the Merger Agreement. The maximum amount payable by Harbinger Master Fund under the Indemnification Agreement was $50,000 less any amounts paid by Russell Hobbs or the Harbinger Parties, or any of their respective affiliates as damages under any documents related to the Mergers. No such amounts became due under the Indemnification Agreement. Harbinger Master Fund also agreed to indemnify Russell Hobbs, SB Holdings and their subsidiaries for out-of-pocket costs and expenses above $3,000 in the aggregate that become payable after the consummation of the Mergers and that relate to the litigation arising out of Russell Hobbs business combination transaction with Applica Incorporated.

17 NEW ACCOUNTING PRONOUNCEMENTS

Business Combinations

In December 2007, the Financial Accounting Standards Board (the FASB) issued new accounting guidance on business combinations and noncontrolling interests in consolidated financial statements. The objective is to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. The guidance applies to all transactions or other events in which an entity (the acquirer) obtains control of one or more businesses (the acquiree), including those sometimes referred to as true mergers or mergers of equals

SPECTRUM BRANDS HOLDINGS, INC.

Notes to Condensed Financial Statements (Unaudited) (Continued)
(Amounts in thousands, except per share figures)

and combinations achieved without the transfer of consideration. The guidance, among other things, requires companies to provide disclosures relating to the gross amount of goodwill and accumulated goodwill impairment losses. In April 2009, the FASB issued additional guidance which addresses application issues arising from contingencies in a business combination. The Company adopted the new guidance beginning October 1, 2009. The Company completed the Merger during Fiscal 2010 and acquired Seed Resources on December 3, 2010. (See Note 15, Acquisitions, for information relating to the Merger and the Seed Resources Acquisition.)

Employers Disclosures about Postretirement Benefit Plan Assets

In December 2008, the FASB issued new accounting guidance on employers disclosures about assets of a defined benefit pension or other postretirement plan. It requires employers to disclose information about fair value measurements of plan assets. The objectives of the disclosures are to provide an understanding of: (a) how investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies; (b) the major categories of plan assets; (c) the inputs and valuation techniques used to measure the fair value of plan assets; (d) the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period; and (e) significant concentrations of risk within plan assets. The Company adopted this new guidance at September 30, 2010, the fair value measurement date of its defined benefit pension and retiree medical plans. (See Note 10, Employee Benefit Plans, for the applicable disclosures.)

Table of Contents

Report of Independent Registered Public Accounting Firm

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

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Spectrum Brands Holdings, Inc. and subsidiaries as of September 30, 2010 and September 30, 2009 (Successor Company), and the results of their operations and their cash flows for the year ended September 30, 2010, the period August 31, 2009 to September 30, 2009 (Successor Company), the period October 1, 2008 to August 30, 2009 and the year ended September 30, 2008 (Predecessor Company) in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s internal control over financial reporting as of September 30, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 14, 2010 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

As discussed in Note 2 to the consolidated financial statements, the Predecessor Company filed a petition for reorganization under Chapter 11 of the United States Bankruptcy Code on February 3, 2009. The Company s plan of reorganization became effective and the Company emerged from bankruptcy protection on August 28, 2009. In connection with their emergence from bankruptcy, the Successor Company Spectrum Brands, Inc. adopted fresh-start reporting in conformity with ASC Topic 852, *Reorganizations* formerly America Institute of Certified Public Accountants Statement of Position 90-7, *Financial Reporting by Entities in Reorganization under the Bankruptcy Code* , effective as of August 30, 2009. Accordingly, the Successor Company s consolidated financial statements prior to August 30, 2009 are not comparable to its consolidated financial statements for periods on after August 30, 2009.

As discussed in Note 10 to the consolidated financial statements, effective September 30, 2009, the Successor Company adopted the measurement date provision of ASC Topic 715, *Compensation-Retirement Benefits* formerly FAS 158, *Employers Accounting for Defined Benefit Pension and other Postretirement Plans* .

/s/ KPMG LLP

Atlanta, Georgia
December 14, 2010, except for Notes 1, 6, 11 and 17
as to which the date is February 25, 2011

Table of Contents

Report of Independent Registered Public Accounting Firm

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

We have audited Spectrum Brands Holdings, Inc. and subsidiaries (the Company) internal control over financial reporting as of September 30, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Spectrum Brands Holdings, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of September 30, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited the accompanying consolidated statements of financial position of Spectrum Brands Holdings, Inc. and subsidiaries as of September 30, 2010 and September 30, 2009 (Successor Company), and the related consolidated statements of operations, shareholders equity (deficit) and comprehensive income (loss), and cash flows for the year ended September 30, 2010, the period August 31, 2009 to September 30, 2009 (Successor Company), the period October 1, 2008 to August 30, 2009 and the year ended September 30, 2008 (Predecessor Company), along with the financial statement schedule II, and our report dated December 14, 2010 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired Russell Hobbs, Inc. and its subsidiaries (Russell Hobbs) on June 16, 2010. Management excluded Russell Hobbs from its assessment of the effectiveness of internal control over financial reporting and the associated total assets of $863,282,000 and total net sales of $237,576,000 included in the consolidated financial statements of the Company as of and for the year ended September 30, 2010. Our audit of internal control over financial reporting of the Company as of September 30, 2010 also excluded Russell Hobbs.

/s/ KPMG LLP

Atlanta, Georgia
December 14, 2010

Table of Contents

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position
September 30, 2010 and 2009

	Successor Company 2010	Successor Company 2009
	(In thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 170,614	$ 97,800
Receivables:		
Trade accounts receivable, net of allowances of $4,351 and $1,011, respectively	365,002	274,483
Other	41,445	24,968
Inventories	530,342	341,505
Deferred income taxes	35,735	28,137
Assets held for sale	12,452	11,870
Prepaid expenses and other	44,122	39,973
Total current assets	1,199,712	818,736
Property, plant and equipment, net	201,164	212,361
Deferred charges and other	46,352	34,934
Goodwill	600,055	483,348
Intangible assets, net	1,769,360	1,461,945
Debt issuance costs	56,961	9,422
Total assets	$ 3,873,604	$ 3,020,746
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 20,710	$ 53,578
Accounts payable	332,231	186,235
Accrued liabilities:		
Wages and benefits	93,971	88,443
Income taxes payable	37,118	21,950
Restructuring and related charges	23,793	26,203
Accrued interest	31,652	8,678
Other	123,297	109,981
Total current liabilities	662,772	495,068
Long-term debt, net of current maturities	1,723,057	1,529,957
Employee benefit obligations, net of current portion	92,725	55,855
Deferred income taxes	277,843	