HARBINGER GROUP INC.
Form 10-K/A
March 25, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K/A

(Amendment No. 2)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 1-4219

Harbinger Group Inc.

(Exact name of Registrant as specified in its charter)

Delaware	**74-1339132**

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

Registrant s Telephone Number, Including Area Code (212) 906-8555

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ or No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ or No þ

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant s most recently completed second fiscal quarter, April 1, 2012, was approximately $49.8 million. For the sole purpose of making this calculation, the term non-affiliate has been interpreted to exclude directors and executive officers and other affiliates of the registrant and persons affiliated with Harbinger Capital Partners LLC.

As of March 22, 2013, the registrant had outstanding 143,176,546 shares of common stock, $0.01 par value.

Documents Incorporated By Reference: None.

EXPLANATORY NOTE

Harbinger Group Inc. (the Company) is filing this Amendment No. 2 on Form 10-K/A (this Amendment) to the Annual Report on Form 10-K of the Company for the year ended September 30, 2012 (Original 10-K) solely for the purpose of including a conformed signature on the report of KPMG LLP (KPMG), the Company s independent registered accounting firm, for the Harbinger F&G, LLC and Subsidiaries Consolidated Financial Statements provided under rule 3-16 under Regulation S-X (HF&G Financial Statements), which was inadvertently excluded from the Original 10-K.

Accordingly, pursuant to the applicable rules of the SEC, (i) the Original 10-K s Item 8. Financial Statements and Supplementary Data is being filed in its entirety solely to add the conformed signature to the report of KPMG to the HF&G Financial Statements and (ii) the certifications of the Company s principal executive officers and principal financial and accounting officer are being filed as of the date of this Amendment. The only change in these certifications is their date.

Except as described above, this Amendment does not modify or update disclosure in, or exhibits to the Original 10-K. Furthermore, this Amendment does not change any previously reported financial results, nor does it reflect events occurring after the date of the Original 10-K. Information not affected by this Amendment remains unchanged and reflects the disclosures made at the time the Original 10-K was filed.

PART II

Item 8. ***Financial Statements and Supplementary Data***

HARBINGER GROUP INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Harbinger Group Inc.:

We have audited the accompanying consolidated balance sheets of Harbinger Group Inc. and subsidiaries as of September 30, 2012 and 2011, and the related consolidated statements of operations, permanent equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended September 30, 2012. In connection with our audits of the consolidated financial statements we also audited financial statement schedules I to IV. These consolidated financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules 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 Harbinger Group Inc. and subsidiaries as of September 30, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2012 in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

New York, New York

November 27, 2012

HARBINGER GROUP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	September 30, 2012	September 30, 2011
ASSETS		
Consumer Products and Other:		
Cash and cash equivalents	$ 408,889	$ 321,352
Short-term investments (Note 5)	181,828	350,638
Receivables, net (Note 4)	414,417	394,283
Inventories, net (Note 8)	452,633	434,630
Prepaid expenses and other current assets (Note 17)	86,272	143,654
Total current assets	1,544,039	1,644,557
Properties, net (Note 9)	214,319	206,799
Goodwill (Note 10)	694,245	610,338
Intangibles, net (Note 10)	1,714,929	1,683,909
Deferred charges and other assets (Note 12)	82,141	97,324
	4,249,673	4,242,927
Insurance and Financial Services:		
Investments (Notes 5 and 6):		
Fixed maturities, available-for-sale, at fair value	16,088,913	15,367,474
Equity securities, available-for-sale, at fair value	248,087	287,043
Derivative investments	200,667	52,335
Asset-backed loans and other invested assets	198,868	44,279
Total investments	16,736,535	15,751,131
Cash and cash equivalents	1,061,822	816,007
Accrued investment income	191,577	212,848
Reinsurance recoverable (Note 20)	2,363,083	1,612,036
Intangibles, net (Note 10)	273,543	457,167
Deferred tax assets (Note 17)	279,636	207,729
Other assets	44,622	291,043
	20,950,818	19,347,961
Total assets	$ 25,200,491	$ 23,590,888
LIABILITIES AND EQUITY		
Consumer Products and Other:		
Current portion of long-term debt (Note 12)	$ 16,414	$ 16,090
Accounts payable	325,943	328,635
Accrued and other current liabilities (Note 11)	336,908	317,629
Total current liabilities	679,265	662,354
Long-term debt (Note 12)	2,150,625	2,032,690
Equity conversion feature of preferred stock (Notes 6 and 13)	231,950	75,350
Employee benefit obligations (Note 15)	95,113	89,857
Deferred tax liabilities (Note 17)	382,390	338,679
Other liabilities	31,897	44,957
	3,571,240	3,243,887
Insurance and Financial Services:		
Contractholder funds (Note 2)	15,290,475	14,549,970

Future policy benefits (Note 2)	3,614,788	3,598,208
Liability for policy and contract claims	91,082	56,650
Note payable (Note 12)		95,000
Other liabilities (Note 11)	714,708	381,597
	19,711,053	18,681,425
Total liabilities	23,282,293	21,925,312
Commitments and contingencies (Note 19)		
Temporary equity (Note 13):		
Redeemable preferred stock, $0.01 par; 10,000 preferred shares authorized; 400 shares outstanding with aggregate liquidation preference of $626,008 and $607,583 at September 30, 2012 and 2011, respectively	319,225	292,437
Harbinger Group Inc. stockholders equity (Note 14):		
Common stock, $0.01 par; 500,000 shares authorized; 140,184 shares and 139,346 shares issued and outstanding at September 30, 2012 and 2011, respectively	1,402	1,393
Additional paid-in capital	861,191	872,683
Accumulated deficit	(98,168)	(128,083)
Accumulated other comprehensive income	413,172	149,448
Total Harbinger Group Inc. stockholders equity	1,177,597	895,441
Noncontrolling interest	421,376	477,698
Total permanent equity	1,598,973	1,373,139
Total liabilities and equity	$ 25,200,491	$ 23,590,888

See accompanying notes to consolidated financial statements.

HARBINGER GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended September 30, 2012	2011	2010
Revenues:			
Consumer Products and Other:			
Net sales	$ 3,252,435	$ 3,186,916	$ 2,567,011
Insurance and Financial Services:			
Premiums	55,297	39,002	
Net investment income (Note 5)	722,733	369,840	
Net investment gains (losses) (Note 5)	410,000	(166,891)	
Insurance and investment product fees and other	40,251	48,915	
	1,228,281	290,866	
Total revenues	4,480,716	3,477,782	2,567,011
Operating costs and expenses:			
Consumer Products and Other:			
Cost of goods sold (Note 23)	2,136,757	2,058,049	1,645,601
Selling, general and administrative expenses (Notes 2, 15, 16, 19, 22 and 23)	870,755	947,140	760,956
	3,007,512	3,005,189	2,406,557
Insurance and Financial Services:			
Benefits and other changes in policy reserves	777,372	247,632	
Acquisition and operating expenses, net of deferrals	125,685	72,390	
Amortization of intangibles (Note 10)	160,656	(11,115)	
	1,063,713	308,907	
Total operating costs and expenses	4,071,225	3,314,096	2,406,557
Operating income	409,491	163,686	160,454
Interest expense (Note 12)	(251,032)	(249,260)	(277,015)
(Increase) decrease in fair value of equity conversion feature of preferred stock (Note 6)	(156,600)	27,910	
Bargain purchase gain from business acquisition (Note 22)		158,341	
Gain on contingent purchase price reduction (Note 22)	41,000		
Other expense, net (Notes 2, 5, 6 and 27)	(17,473)	(42,743)	(12,105)
Income (loss) from continuing operations before reorganization items and income taxes	25,386	57,934	(128,666)
Reorganization items expense (Note 24)			(3,646)
Income (loss) from continuing operations before income taxes	25,386	57,934	(132,312)
Income tax (benefit) expense (Note 17)	(85,282)	50,555	63,195
Income (loss) from continuing operations	110,668	7,379	(195,507)
Loss from discontinued operations, net of tax (Note 25)			(2,735)
Net income (loss)	110,668	7,379	(198,242)
Less: Net income (loss) attributable to noncontrolling interest	21,112	(34,680)	(46,373)
Net income (loss) attributable to controlling interest	89,556	42,059	(151,869)

Less: Preferred stock dividends and accretion	59,641	19,833	
Net income (loss) attributable to common and participating preferred stockholders	$ 29,915	$ 22,226	$ (151,869)
Basic income (loss) per common share attributable to controlling interest (Note 18):			
Continuing operations	$ 0.15	$ 0.11	$ (1.13)
Discontinued operations			(0.02)
Net income (loss)	$ 0.15	$ 0.11	$ (1.15)
Diluted income (loss) per common share attributable to controlling interest (Note 18):			
Continuing operations	$ 0.15	$ 0.09	$ (1.13)
Discontinued operations			(0.02)
Net income (loss)	$ 0.15	$ 0.09	$ (1.15)

See accompanying notes to consolidated financial statements.

HARBINGER GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PERMANENT EQUITY AND COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Common Stock				Accumulated Other				
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Comprehensive Income(Loss) (Note 14)	Treasury Stock	Total Stockholder Equity	Noncontrolling Interest	Total Permanent Equity
Balances at September 30, 2009	129,600	$ 1,296	$ 723,800	$ (70,785)	$ 6,568	$	$ 660,879	$	$ 660,879
Net loss				(151,869)			(151,869)	(46,373)	(198,242)
Actuarial adjustments to pension plans (Note 15)					(13,561)		(13,561)	(8,084)	(21,645)
Translation adjustment					395		395	12,682	13,077
Other unrealized losses					(5,330)		(5,330)	(1,276)	(6,606)
Comprehensive loss							(170,365)	(43,051)	(213,416)
Issuance of common stock in merger (Note 22)	88,271	883	574,320				575,203		575,203
Issuance of restricted stock	4,056	41	(41)						
Unvested restricted stock units, not issued or outstanding	(1,171)	(12)	12						
Treasury stock purchases						(2,207)	(2,207)		(2,207)
Stock compensation (Note 16)			14,032				14,032	2,678	16,710
Capital contributions from a principal stockholder			491				491		491
Retrospective adjustments for common control transaction as of June 16, 2010 (Note 1)	(81,559)	(816)	(456,847)	72,345	6,733	2,207	(376,378)	516,545	140,167
Balances at September 30, 2010	139,197	$ 1,392	$ 855,767	$ (150,309)	$ (5,195)	$	$ 701,655	$ 476,172	$ 1,177,827
Net income				42,059			42,059	(34,680)	7,379
Unrealized investment gains, net					159,302		159,302		159,302
Non-credit related other-than-temporary impaiments					191		191		191
Other unrealized gains					2,300		2,300	2,128	4,428
Actuarial adjustments to pension plans (Note 15)					(1,662)		(1,662)	(373)	(2,035)
Translation adjustment					(5,171)		(5,171)	(5,436)	(10,607)
Comprehensive income							197,019	(38,361)	158,658
Issuance of subsidiary stock, net			(377)		(317)		(694)	27,136	26,442
Exercise of stock options	149	1	416				417		417
Stock compensation (Note 16)			16,573				16,573	13,932	30,505
Subsidiary restricted stock units surrendered			(1,412)				(1,412)	(1,181)	(2,593)
Capital contributions from a principal stockholder			1,716				1,716		1,716
Preferred stock dividends and accretion				(19,833)			(19,833)		(19,833)
Balances at September 30, 2011	139,346	$ 1,393	$ 872,683	$ (128,083)	$ 149,448	$	$ 895,441	$ 477,698	$ 1,373,139
Net income				89,556			89,556	21,112	110,668
Unrealized investment gains, net					275,602		275,602		275,602
Non-credit related other-than-temporary impaiments					(613)		(613)		(613)
Other unrealized gains					809		809	736	1,545
Actuarial adjustments to pension plans (Note 15)					(6,601)		(6,601)	(5,074)	(11,675)

Translation adjustment					(4,420)		(4,420)	(4,182)	(8,602)
Comprehensive income							354,333	12,592	366,925
Purchases of subsidiary stock			(25,975)		(1,053)		(27,028)	(58,019)	(85,047)
Stock compensation (Note 16)	838	9	16,631				16,640	14,574	31,214
Subsidiary restricted stock units surrendered			(2,148)				(2,148)	(1,849)	(3,997)
Preferred stock dividends and accretion				(59,641)			(59,641)		(59,641)
Dividend paid by subsidiary								(23,620)	(23,620)
Balances at September 30, 2012	140,184	$ 1,402	$ 861,191	$ (98,168)	$ 413,172	$	$ 1,177,597	$ 421,376	$ 1,598,973

See accompanying notes to consolidated financial statements.

HARBINGER GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended September 30,		
	2012	**2011**	**2010**
Cash flows from operating activities:			
Net income (loss)	$ 110,668	$ 7,379	$ (198,242)
Loss from discontinued operations			(2,735)
Income (loss) from continuing operations	110,668	7,379	(195,507)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by continuing operating activities:			
Bargain purchase gain from business acquisition		(158,341)	
Gain on contingent purchase price adjustment	(41,000)		
Depreciation of properties	43,984	48,841	54,841
Amortization of intangibles	224,322	46,580	45,920
Stock-based compensation	31,214	30,505	16,710
Intangible asset impairment		32,450	
Amortization of debt issuance costs	12,778	14,968	9,030
Amortization of debt discount	1,293	5,386	18,302
Write off of debt issuance costs on retired debt	2,946	15,420	6,551
Write off of unamortized (premium) discount on retired debt	(466)	8,950	59,162
Deferred income taxes	(153,470)	(16,119)	52,612
Cost of trading securities acquired for sale	(643,763)	(770,453)	
Proceeds from trading securities sold	766,120	756,986	
Interest credited/index credits to contractholder account balances	586,814	140,004	
Collateral returned (posted)	49,339	(148,420)	
Amortization of fixed maturity discounts and premiums	86,943	59,937	
Net recognized (gains) losses on investments and derivatives	(231,930)	181,177	
Charges assessed to contractholders for mortality and administration	(14,932)	(28,358)	
Deferred policy acquisition costs	(194,900)	(41,152)	
Cash transferred to reinsurers	(176,770)	(52,585)	
Administrative related reorganization items			3,646
Payments for administrative related reorganization items			(47,173)
Non-cash increase to cost of goods sold due to fresh-start reporting inventory valuation			34,865
Non-cash interest expense			24,555
Non-cash restructuring and related charges	5,195	15,143	16,359
Changes in operating assets and liabilities:			
Receivables	22,892	12,969	12,702
Inventories	(11,642)	96,406	(66,127)
Prepaid expenses and other current assets	11,338	(14,770)	1,435
Accrued investment income	15,224	1,674	
Reinsurance recoverable	(89,078)	(39,446)	
Accounts payable and accrued and other current liabilities	(26,587)	(23,875)	88,594
Future policy benefits	16,580	(6,337)	
Liability for policy and contract claims	34,432	(3,750)	
Other operating	181,155	(18,064)	(74,019)
Net cash provided by continuing operating activities	618,699	153,105	62,458
Net cash used in discontinued operating activities			(11,221)
Net cash provided by operating activities	618,699	153,105	51,237
Cash flows from investing activities:			
Proceeds from investments sold, matured or repaid	6,206,696	1,699,919	30,094
Cost of investments acquired	(5,972,715)	(1,808,999)	(3,989)
Acquisitions, net of cash acquired	(185,067)	684,417	(2,577)
Asset-backed loans originated	(181,414)		
Capital expenditures	(53,518)	(38,250)	(40,374)

Cash acquired in common control transaction			65,780
Proceeds from sales of assets	500	7,240	388
Other investing activities, net	(118)	(12,365)	
Net cash (used in) provided by investing activities	(185,636)	531,962	49,322
Cash flows from financing activities:			
Proceeds from issuances of senior notes	517,000	498,459	
Proceeds from preferred stock issuances, net of issuance costs		385,973	
Proceeds from new senior credit facilities, net of discount			1,474,755
Repayment of senior subordinated toggle notes, including tender and call premiums	(270,431)		
Payment of extinguished senior credit facilities, including prepayment penalties		(230,416)	(1,278,760)
Proceeds from other debt financing, net	392	5,788	13,688
Repayments of other debt	(254,173)		(53,456)
Debt issuance costs	(11,231)	(28,823)	(55,024)
Revolving credit facility activity			(33,225)
Contractholder account deposits	2,040,512	494,956	
Contractholder account withdrawals	(1,979,558)	(959,961)	
(Purchases) issuances of subsidiary stock, net	(85,047)	26,442	(2,207)
Dividends paid on preferred stock	(31,670)		
Dividend paid by subsidiary to noncontrolling interest	(23,620)		
Other financing activities, net	(953)	2,134	491
Net cash (used in) provided by financing activities	(98,779)	194,552	66,262
Effect of exchange rate changes on cash and cash equivalents	(932)	909	258
Effect of exchange rate changes on cash and cash equivalents due to Venezuela hyperinflation			(8,048)
Net increase in cash and cash equivalents	333,352	880,528	159,031
Cash and cash equivalents at beginning of year	1,137,359	256,831	97,800
Cash and cash equivalents at end of year	$ 1,470,711	$ 1,137,359	$ 256,831
Cash and cash equivalents Consumer Products and Other	$ 408,889	$ 321,352	$ 256,831
Cash and cash equivalents Insurance and Financial Services	1,061,822	816,007	
Total cash and cash equivalents at end of year	$ 1,470,711	$ 1,137,359	$ 256,831
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 238,605	$ 190,171	$ 136,429
Cash paid for income taxes, net	47,232	37,171	36,951

See accompanying notes to consolidated financial statements.

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands, except per share figures)

(1) Basis of Presentation and Nature of Operations

Harbinger Group Inc., a Delaware corporation (HGI and, collectively with its subsidiaries, the Company), is a diversified holding company, the outstanding common stock of which is 92.6% owned, collectively, by Harbinger Capital Partners Master Fund I, Ltd. (the Master Fund), Global Opportunities Breakaway Ltd. and Harbinger Capital Partners Special Situations Fund, L.P. (together, the Principal Stockholders), not giving effect to the conversion rights of the Series A Participating Convertible Preferred Stock (the Series A Preferred Stock) or the Series A-2 Participating Convertible Preferred Stock (the Series A-2 Preferred Stock , together the Preferred Stock). Such common stock ownership by the Principal Stockholders represents a voting interest of 69% in relation to the existing voting rights of all HGI s common and preferred stockholders. HGI s shares of common stock trade on the New York Stock Exchange (NYSE) under the symbol HRG.

HGI is focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries and growing acquired businesses. In addition to acquiring controlling interests, HGI may make investments in debt instruments, acquire minority equity interests in companies and expand its operating businesses. The Company also owns 97.9% of Zap.Com Corporation (Zap.Com), a public shell company that may seek assets or businesses to acquire or may sell assets and/or liquidate.

On January 7, 2011, HGI completed the acquisition (the Spectrum Brands Acquisition) of a controlling financial interest in Spectrum Brands Holdings, Inc., a Delaware corporation (Spectrum Brands), under the terms of a contribution and exchange agreement (the Exchange Agreement) with the Principal Stockholders. The Principal Stockholders contributed approximately 54.5% of the then outstanding Spectrum Brands common stock to the Company and, in exchange for such contribution, the Company issued to the Principal Stockholders 119,910 shares of its common stock. Subsequently, HGI has directly and indirectly through a wholly-owned subsidiary, acquired additional Spectrum Brands stock. The Company s beneficial ownership of the outstanding common stock of Spectrum Brands was 57.4% and 53.1% at September 30, 2012 and 2011, respectively.

Spectrum Brands is a global and diversified consumer products company and a leading supplier of batteries, small household appliances, specialty pet supplies, home and garden control products, shaving and grooming products, personal care products and portable lighting. Spectrum Brands offers a broad portfolio of brands including Rayovac®, Remington®, VARTA®, George Foreman®, Black & Decker®, Toastmaster®, Farberware®, Tetra®, Marineland®, Nature s Miracle®, Dingo®, 8-in-1®, FURminator®, Littermaid®, Spectracide®, Cutter®, Repel®, Hot Shot® and Black Flag®. Spectrum Brands trades on the NYSE under the symbol SPB.

Spectrum Brands was formed in connection with the combination (the SB/RH Merger) of Spectrum Brands, Inc. (SBI), a global branded consumer products company, and Russell Hobbs, Inc. (Russell Hobbs), a global branded small appliance company. The SB/RH Merger was consummated on June 16, 2010. As a result of the SB/RH Merger, both SBI and Russell Hobbs are wholly-owned subsidiaries of Spectrum Brands and Russell Hobbs is a wholly-owned subsidiary of SBI. Prior to the SB/RH Merger, the Principal Stockholders owned approximately 40% and 100% of the outstanding common stock of SBI and Russell Hobbs, respectively. Spectrum Brands issued an approximately 65% controlling financial interest to the Principal Stockholders and an approximately 35% noncontrolling financial interest to other stockholders (other than the Principal Stockholders) in the SB/RH Merger.

Immediately prior to the Spectrum Brands Acquisition, the Principal Stockholders held controlling financial interests in both HGI and Spectrum Brands. As a result, the Spectrum Brands Acquisition was considered a transaction between entities under common control under Accounting Standards Codification (ASC) Topic 805, *Business Combinations,* and was accounted for similar to the pooling of interest method. In accordance with the guidance in ASC Topic 805, the assets and liabilities transferred between entities under common control are recorded by the receiving entity based on their carrying amounts (or at the historical cost basis of the parent, if these amounts differ). Although HGI was the issuer of shares in the Spectrum Brands Acquisition, during the historical periods presented Spectrum Brands was an operating business and HGI was not. Therefore, Spectrum Brands has been 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 stockholders. Accordingly, the Company s financial statements were retrospectively adjusted to reflect as the Company s historical financial statements, those of SBI prior to June 16, 2010 and the combination of Spectrum Brands, HGI and HGI s other subsidiaries thereafter. HGI s assets and liabilities were recorded at the Principal Stockholders basis as of June 16, 2010, the date that common control was first established. As SBI was the accounting acquirer in the SB/RH Merger, the financial statements of SBI are included as the Company s predecessor entity for periods preceding the June 16, 2010 date of the SB/RH Merger. 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 Spectrum Brands.

As discussed further in Note 22, on April 6, 2011 (the FGL Acquisition Date), the Company acquired Fidelity & Guaranty Life Holdings, Inc. (formerly, Old Mutual U.S. Life Holdings, Inc.), a Delaware corporation (FGL), from OM Group (UK) Limited (OMGUK). Such acquisition (the FGL Acquisition) has been accounted for using the acquisition method of accounting. Accordingly, the results of FGL s operations have been included in the Company s consolidated financial statements commencing April 6, 2011.

FGL s primary business is the sale of individual life insurance products and annuities through independent agents, managing general agents, and specialty brokerage firms and in selected institutional markets. FGL s principal products are deferred annuities (including fixed indexed annuity (FIA) contracts), immediate annuities and life insurance products. FGL markets products through its wholly-owned insurance subsidiaries, Fidelity & Guaranty Life Insurance Company (FGL Insurance) and Fidelity & Guaranty Life Insurance Company of New York (FGL NY Insurance), which together are licensed in all fifty states and the District of Columbia.

In connection with the acquisition of FGL, the Company acquired all of the equity of Front Street Re, Ltd. (Front Street) which was formed in March 2010 to act as a long-term reinsurer and to provide reinsurance to specialty insurance sectors of fixed, deferred and pay out annuities.

Additionally, the Company formed Salus Capital Partners, LLC (Salus), a subsidiary engaged in providing secured asset-based loans to entities across a variety of industries. Commencing December 1, 2011, the financial position and results of operations of Salus are reflected in the Insurance and Financial Services sections of the consolidated balance sheet and statement of operations, respectively.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

(2) Significant Accounting Policies and Practices

Consolidation and Fiscal Year End

The accompanying consolidated financial statements include the accounts of HGI and all other entities in which HGI has a controlling financial interest; including Spectrum Brands (and SBI as its accounting predecessor prior to the SB/RH Merger), FGL, HGI Funding LLC (HGI Funding), Salus, Zap.Com and certain wholly-owned non-operating subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. At September 30, 2012, the non-controlling interest component of total equity represents the 42.6% share of Spectrum Brands and the 2.1% share of Zap.Com not owned by HGI. The Company s fiscal year ends September 30 and its interim fiscal quarters end every thirteenth Sunday, except for its first fiscal quarter which may end on the fourteenth Sunday following September 30. References herein to Fiscal 2012, 2011 and 2010 refer to the fiscal years ended September 30, 2012, 2011 and 2010, respectively.

Segment Reporting

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. The Company s reportable business segments are organized in a manner that reflects how HGI s management views those business activities subsequent to the Spectrum Brands Acquisition and the FGL Acquisition. Accordingly, for purposes of the consolidated financial statement information of HGI presented herein, the Company operated in two major business segments, consumer products and, commencing April 6, 2011, insurance. In addition, commencing December 1, 2011, the Company includes the results of Salus in Other financial services in the segment data set forth in Note 27.

Revenue Recognition

Net Sales

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

The Company enters into various promotional arrangements, primarily with retail customers, including arrangements entitling such retailers to cash rebates from the Company based on the level of their purchases, which require the Company to estimate and accrue the estimated costs of the promotional programs. These costs are treated as a reduction of Net sales.

The Company also enters into promotional arrangements that target the ultimate consumer. The costs associated with such arrangements are treated as either a reduction of Net sales or an increase of Cost of goods sold, based on the type of promotional program. The income statement presentation of the Company s promotional arrangements complies with ASC Topic 605, *Revenue Recognition.* For all types of promotional arrangements and programs, the Company monitors its commitments and uses various measures, including past experience, to determine amounts to be recorded for the estimate of the earned, but unpaid, promotional costs. The terms of the Company s customer-related promotional arrangements and programs are tailored to each customer and are documented through written contracts, correspondence or other communications with the individual customers.

The Company also enters into various arrangements, primarily with retail customers, which require the Company to make upfront cash, or slotting payments, in order to secure the right to distribute through such customers. The Company capitalizes slotting payments; provided the payments are supported by a time or volume based arrangement with the retailer, and amortizes the associated payment over the appropriate time or volume based term of the arrangement. The amortization of slotting payments is treated as a reduction of Net sales and a corresponding asset is reported in Deferred charges and other assets in the accompanying Consolidated Balance Sheets.

Insurance Premiums

FGL s insurance premiums for traditional life insurance products are recognized as revenue when due from the contractholder. FGL s traditional life insurance products include those products with fixed and guaranteed premiums and benefits and consist primarily of term life insurance and certain annuities with life contingencies.

Premium collections for fixed indexed and fixed rate annuities, indexed universal life (IUL) policies and immediate annuities without life contingency are reported as deposit liabilities (i.e., contractholder funds) instead of as revenues. Similarly, cash payments to policyholders are reported as decreases in the liability for contractholder funds and not as expenses. Sources of revenues for products accounted for as deposit liabilities are net investment income, surrender and other charges deducted from contractholder funds, and net recognized gains (losses) on investments.

Net Investment Income

Dividends and interest income of FGL and Salus, recorded in Net investment income, are recognized when earned. Amortization of premiums and accretion of discounts on investments in fixed maturity securities are reflected in Net investment income over the contractual terms of the investments in a manner that produces a constant effective yield.

For mortgage-backed securities, included in the fixed maturity available-for-sale securities portfolios, FGL recognizes income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from originally anticipated prepayments, the effective yield is recalculated prospectively to reflect actual payments to date plus anticipated future payments. Any adjustments resulting from changes in effective yield are reflected in Net investment income.

Net Investment Gains (Losses)

Net investment gains (losses) include realized gains and losses of FGL from the sale of investments, write-downs for other-than-temporary impairments of available-for-sale investments, and gains and losses on derivative investments. For the insurance segment, realized gains and losses on the sale of investments are determined using the specific identification method.

Product Fees

Product fee revenue from indexed universal life insurance products and deferred annuities is comprised of policy and contract fees charged for the cost of insurance policy administration and is assessed on a monthly basis and recognized as revenue when assessed and earned. Product fee revenue also includes surrender charges which are recognized and collected when the policy is surrendered.

Cash Equivalents

The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. As of September 30, 2012 and 2011, cash and cash equivalents included such cash equivalents of $19,994 and $29,009, respectively, for Consumer Products and Other, and $2,250 and $2,768, respectively, for Insurance and Financial Services.

Investments

Consumer Products and Other

HGI s short-term investments consist of (1) marketable equity and debt securities classified as trading and carried at fair value with unrealized gains and losses recognized in earnings, including certain securities for which the Company has elected the fair value option under ASC Topic 825, *Financial Instruments*, which would otherwise have been classified as available-for-sale, and (2) U.S. Treasury securities and a certificate of deposit classified as held to maturity and carried at amortized cost, which approximates fair value.

Insurance and Financial Services

FGL s investments in debt and equity securities have been designated as available-for-sale and are carried at fair value with unrealized gains and losses included in Accumulated other comprehensive income (loss) (AOCI), net of associated intangibles shadow adjustments (discussed in Note 10) and deferred income taxes. Also included under Investments are asset-based loans originated by Salus that it intends to hold in its portfolio and which are stated at the principal amount outstanding, adjusted for unamortized deferred fees and costs as well as discounts and premiums, which are amortized to interest income (included in Net Investment income) over the expected life of the loan on a straight-line basis.

Available-for-sale Securities Other-Than-Temporary Impairments

FGL regularly reviews its available-for-sale securities for declines in fair value that FGL determines to be other-than-temporary. For an equity security, if FGL does not have the ability and intent to hold the security for a sufficient period of time to allow for a recovery in value, FGL concludes that an other-than-temporary impairment has occurred and the cost of the equity security is written down to the current fair value, with a corresponding charge to Net investment gains (losses) in the accompanying Consolidated Statements of Operations. When assessing FGL s ability and intent to hold an equity security to recovery, FGL considers, among other things, the severity and duration of the decline in fair value of the equity security as well as the cause of the decline, a fundamental analysis of the liquidity, business prospects and the overall financial condition of the issuer.

For FGL s fixed maturity available-for-sale securities, FGL generally considers the following in determining whether FGL s unrealized losses are other than temporarily impaired:

- The estimated range and period until recovery;
- Current delinquencies and nonperforming assets of underlying collateral;
- Expected future default rates;
- Collateral value by vintage, geographic region, industry concentration or property type;
- Subordination levels or other credit enhancements as of the balance sheet date as compared to origination; and
- Contractual and regulatory cash obligations.

FGL recognizes other-than-temporary impairments on debt securities in an unrealized loss position when one of the following circumstances exists:

- FGL does not expect full recovery of its amortized cost based on the estimate of cash flows expected to be collected;
- FGL intends to sell a security; or
- It is more likely than not that FGL will be required to sell a security prior to recovery.

If FGL intends to sell a debt security or it is more likely than not FGL will be required to sell the security before recovery of its amortized cost basis and the fair value of the security is below amortized cost, FGL will conclude that an other-than-temporary impairment has occurred and the amortized cost is written down to current fair value, with a corresponding charge to Net investment gains (losses) in the accompanying Consolidated Statements of Operations. If FGL does not intend to sell a debt security or it is more likely than not FGL will not be required to sell a debt security before recovery of its amortized cost basis and the present value of the cash flows expected to be collected is less than the amortized cost of the security (referred to as the credit loss), an other-than-temporary impairment has occurred and the amortized cost is written down to the estimated recovery value with a corresponding charge to Net investment gains (losses) in the accompanying Consolidated Statements of Operations, as this amount is deemed the credit loss portion of the other-than-temporary impairment. The remainder of the decline to fair value is recorded in AOCI as unrealized other-than-temporary impairment on available-for-sale securities, as this amount is considered a non-credit (i.e., recoverable) impairment.

When assessing FGL s intent to sell a debt security or if it is more likely than not FGL will be required to sell a debt security before recovery of its cost basis, FGL evaluates facts and circumstances such as, but not limited to, decisions to reposition FGL s security portfolio, sale of securities to meet cash flow needs and sales of securities to capitalize on favorable pricing and tax planning strategies. In order to determine the amount of the credit loss for a security, FGL calculates the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows FGL expects to recover. The discount rate is the effective interest rate implicit in the underlying security. The effective interest rate is the original purchased yield or the yield at the date the debt security was previously impaired.

When evaluating mortgage-backed securities and asset-backed securities, FGL considers a number of pool-specific factors as well as market level factors when determining whether or not the impairment on the security is temporary or other-than-temporary. The most important factor is the performance of the underlying collateral in the security and the trends of that performance. FGL uses this information about the collateral to forecast the timing and rate of mortgage loan defaults, including making projections for loans that are already delinquent and for those loans that are currently performing but may become delinquent in the future. Other factors used in this analysis include type of underlying collateral (e.g., prime, Alternative A-paper (Alt-A), or subprime), geographic distribution of underlying loans and timing of liquidations by state. Once default rates and timing assumptions are determined, FGL then makes assumptions regarding the severity of a default if it were to occur. Factors that impact the severity assumption include expectations for future home price appreciation or depreciation, loan size, first lien versus second lien, existence of loan level private mortgage insurance, type of occupancy and geographic distribution of loans. Once default and severity assumptions are determined for the security in question, cash flows for the underlying collateral are projected including expected defaults and prepayments. These cash flows on the collateral are then translated to cash flows on FGL s tranche based on the cash flow waterfall of the entire capital security structure. If this analysis indicates the entire principal on a particular security will not be returned, the security is reviewed for other-than-temporary impairments by comparing the present value of expected cash flows to amortized cost. To the extent that the security has already been impaired or was purchased at a discount, such that the amortized cost of the security is less than or equal to the present value of cash flows expected to be collected, no impairment is required. FGL also considers the ability of monoline insurers to meet their contractual guarantees on wrapped mortgage-backed securities. Otherwise, if the amortized cost of the security is greater than the present value of the cash flows expected to be collected, then an impairment is recognized.

Asset-backed Loans Allowance for Credit Losses

Asset-backed loans originated by Salus that are intended to be held in its portfolio are stated at the principal amount outstanding, adjusted for an allowance for credit losses. The delinquency status is based upon the contractual terms of the loans. At September 30, 2012, Salus has no delinquent loans. Salus generally has a cash dominion provision in its loans whereby all cash generated by its borrowers is swept into a concentration account to pay down each loan on a daily or weekly basis. In instances where Salus believes that it may not be able to collect the entirety of a loan s principal, interest payments are applied to principal.

The allowance for credit losses represents Salus estimate of probable losses inherent in its lending activities and is initially established upon origination of a loan. The allowance for credit losses does not include amounts related to accrued interest receivable, as accrued interest receivable is reversed when a loan is placed on nonaccrual status. Salus regularly evaluates the adequacy of the allowance for credit losses on a combined loan basis. Salus will charge loans off against its allowance for credit losses when it becomes evident that Salus will not fully collect the balance of the loan. The provision for credit losses related to the loan portfolio is charged to Acquisition and operating expenses, net of deferrals in the Consolidated Statements of Operations.

Included in the allowance for credit losses are reserves that are maintained to cover uncertainties that affect Salus estimate of probable losses, including domestic and global economic uncertainty and large single name defaults. This collective allowance for credit losses is calculated using loss rates delineated by risk rating and loan type. Factors considered when assessing loss rates include the value of the underlying collateral, if applicable, the industry of the obligor, and the obligor s liquidity and other financial indicators along with certain qualitative factors. If necessary, a specific allowance is also established for loans if they are deemed to be individually impaired. A loan is considered impaired when, based on current information and events, it is probable that Salus will be unable to collect all amounts due, including principal and/or interest, according to the contractual terms of the agreement. Once a loan has been identified as potentially impaired, management measures impairment based on the present value of payments expected to be received, discounted at the loans original effective contractual interest rates, or discounted at the portfolio average contractual annual percentage rate. Impaired loans may also be measured based on observable market prices, or for loans that are solely dependent on the collateral for repayment, the estimated fair value of the collateral less estimated costs to sell. If the recorded investment in impaired loans exceeds this amount, a specific allowance is established as a component of the allowance for loan losses.

Derivative Financial Instruments

Consumer Products and Other

Derivative financial instruments are used by the Company s consumer products segment principally in the management of its interest rate, foreign currency exchange rate and raw material price exposures. 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.

The Company has outstanding Preferred Stock that contain a conversion feature (see Note 13). If the Company were to issue certain equity securities at a price lower than the conversion price of the respective Preferred Stock, the conversion price would be adjusted downward to reflect the dilutive effect of the newly issued securities (a down round provision). Therefore, in accordance with the guidance in ASC Topic 815, *Derivatives and Hedging,* the conversion feature is considered to be an embedded derivative that must be separately accounted for as a liability at fair value with any changes in fair value reported in current earnings. The embedded derivative has been bifurcated from the host contracts as of the respective issuance dates, marked to fair value and included in Equity conversion feature of preferred stock in the Consumer Products and Other sections of the accompanying Consolidated Balance Sheets with the change in fair value shown separately in the Consolidated Statements of Operations. The Company valued the conversion feature using the Monte Carlo simulation approach, as discussed further in Note 6.

Insurance and Financial Services

The Company s insurance segment hedges certain portions of its exposure to product related equity market risk by entering into derivative transactions. All of such derivative instruments are recognized as either assets or liabilities in the accompanying Consolidated Balance Sheets at fair value. The change in fair value is recognized within Net investment gains (losses) in the accompanying Consolidated Statements of Operations.

FGL purchases and issues financial instruments and products that may contain embedded derivative instruments. If it is determined that the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract for measurement purposes. The embedded derivative is carried at fair value with changes in fair value reported in the accompanying Consolidated Statements of Operations.

Displays and Fixtures

Temporary displays are generally disposable cardboard displays shipped to customers to facilitate display of the Company s products. Temporary displays are generally disposed of after a single use by the customer.

Permanent fixtures are more permanent in nature, are generally made from wire or other longer-lived materials, and are shipped to customers for use in displaying the Company s products. These permanent fixtures are restocked with the Company s product multiple times over the fixture s useful life.

The costs of both temporary and permanent displays are capitalized as a prepaid asset until shipped to the customer and are included in Prepaid expenses and other current assets in the accompanying Consolidated Balance Sheets. The costs of temporary displays are expensed in the period in which they are shipped to customers and the costs of permanent fixtures are amortized over an estimated useful life of one to two years from the date they are shipped to customers and are reflected in Deferred charges and other assets in the accompanying Consolidated Balance Sheets.

Inventories

The Company s inventories are valued at the lower of cost or net realizable value. Cost of inventories is determined using the first-in, first-out (FIFO) method.

Properties

Properties are recorded at cost or at fair value if acquired in a purchase business combination. Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Building and improvements depreciable lives are 20-40 years and machinery, equipment and other depreciable lives are 2-15 years. Properties held under capitalized leases are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset and is included in depreciation expense.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company evaluates recoverability of assets to be held and used by comparing the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Goodwill and Intangibles

Consumer Products

Intangible assets are recorded at cost or at fair value if acquired in a purchase business combination. In connection with fresh-start reporting following SBI s emergence from Chapter 11 of the U.S. Bankruptcy Code, intangible assets were recorded at their estimated fair value on August 30, 2009. Customer lists, proprietary technology and certain trade name intangibles are amortized, using the straight-line method, over their estimated useful lives of approximately 1 to 20 years. Excess of cost over fair value of net assets acquired (goodwill) and indefinite-lived intangible assets (certain trade name intangibles) are not amortized. Goodwill is tested for impairment at least annually, at the reporting unit level. If impairment is indicated, a write-down to fair value (normally measured by discounting estimated future cash flows) is recorded. Indefinite-lived trade name intangibles are tested for impairment at least annually by comparing the fair value, determined using a relief from royalty methodology, with the carrying value. Any excess of carrying value over fair value is recognized as an impairment loss in income from operations. 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. During Fiscal 2012, 2011 and 2010, Spectrum Brands goodwill and trade name intangibles were tested for impairment as of the August financial period end, the annual testing date for Spectrum Brands, as well as in certain interim periods where an event or circumstance occurred that indicated an impairment loss may have been incurred (see Note 10).

Intangibles with Indefinite Lives

In accordance with ASC Topic 360, *Property, Plant and Equipment* (ASC 360) and ASC 350, in addition to its annual impairment testing Spectrum Brands conducts goodwill and trade name intangible asset impairment testing if an event or circumstance (triggering event) occurs that indicates an impairment loss may have been incurred. Spectrum Brands 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.

Intangibles with Definite or Estimable Useful Lives

Spectrum Brands assesses the recoverability of intangible assets with definite or estimable useful lives whenever an event or circumstance occurs that indicates an impairment loss may have been incurred. Spectrum Brands assesses the recoverability of these intangible assets by determining whether their carrying value can be recovered through projected undiscounted future cash flows. If projected undiscounted future cash flows indicate that the carrying value of the assets will not be recovered, an adjustment would be made to reduce the carrying value to an amount equal to estimated fair value determined based on projected future cash flows discounted at Spectrum Brands incremental borrowing rate. The cash flow projections used in estimating fair value are based on historical performance and management s estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions.

Impairment reviews are conducted at the judgment of management when it believes that a change in circumstances in the business or external factors warrants a review. Circumstances such as the discontinuation of a product or product line, a sudden or consistent decline in the sales forecast for a product, changes in technology or in the way an asset is being used, a history of operating or cash flow losses, or an adverse change in legal factors or in the business climate, among others, may trigger an impairment review.

Insurance

Intangible assets of the Company s insurance segment include value of business acquired (VOBA) and deferred acquisition costs (DAC).

VOBA represents the estimated fair value of the right to receive future net cash flows from in-force contracts in a life insurance company acquisition at the acquisition date. DAC represents costs that are related directly to new or renewal insurance contracts, which may be deferred to the extent recoverable. These costs include incremental direct costs of contract acquisition, primarily commissions, as well as certain costs related directly to underwriting, policy issuance and processing. Up front bonus credits to policyholder account values, which are considered to be deferred sales inducements (DSI), are accounted for similarly to DAC.

The methodology for determining the amortization of VOBA and DAC varies by product type. For all insurance contracts, amortization is based on assumptions consistent with those used in the development of the underlying contract adjusted for emerging experience and expected trends. US GAAP requires that assumptions for these types of products not be modified unless recoverability testing deems them to be inadequate. VOBA and DAC amortization are reported within Amortization of intangibles in the accompanying Consolidated Statements of Operations.

VOBA and DAC for IUL and investment-type products are generally amortized over the lives of the policies in relation to the incidence of estimated gross profits (EGPs) from investment income, surrender charges and other product fees, policy benefits, maintenance expenses, mortality net of reinsurance ceded and expense margins, and recognized gains (losses) on investments.

Changes in assumptions can have a significant impact on VOBA and DAC balances and amortization rates. Due to the relative size and sensitivity to minor changes in underlying assumptions of VOBA and DAC balances, FGL performs quarterly and annual analyses of VOBA and DAC for the annuity and indexed universal life businesses. The VOBA and DAC balances are also periodically evaluated for recoverability to ensure that the unamortized portion does not exceed the expected recoverable amounts. At each evaluation date, actual historical gross profits are reflected, and estimated future gross profits and related assumptions are evaluated for continued reasonableness. Any adjustment in estimated future gross profits requires that the amortization rate be revised (unlocking) retroactively to the date of the policy or contract issuance. The cumulative unlocking adjustment is recognized as a component of current period amortization.

The carrying amounts of VOBA and DAC are adjusted for the effects of realized and unrealized gains and losses on debt securities classified as available-for-sale and certain derivatives and embedded derivatives. Amortization expense of VOBA and DAC reflects an assumption for an expected level of credit-related investment losses. When actual credit-related investment losses are realized, FGL performs a retrospective unlocking of VOBA and DAC amortization as actual margins vary from expected margins. This unlocking is reflected in the accompanying Consolidated Statements of Operations.

For investment-type products, the VOBA and DAC assets are adjusted for the impact of unrealized gains (losses) on investments as if these gains (losses) had been realized, with corresponding credits or charges included in AOCI.

Reinsurance

FGL s insurance subsidiaries enter into reinsurance agreements with other companies in the normal course of business. The assets, liabilities, premiums and benefits of certain reinsurance contracts are presented on a net basis in the accompanying Consolidated Balance Sheets and Consolidated Statements of Operations, respectively, when there is a right of offset explicit in the reinsurance agreements. All other reinsurance agreements are reported on a gross basis in the Company s Consolidated Balance Sheets as an asset for amounts recoverable from reinsurers or as a component of other liabilities for amounts, such as premiums, owed to the reinsurers, with the exception of amounts for which the right of offset also exists. Premiums and benefits are reported net of insurance ceded.

Debt Issuance Costs

Debt issuance costs, which are capitalized within Deferred charges and other assets, and original issue discount, net of any premiums, on debt are amortized to interest expense using the effective interest method over the lives of the related debt agreements.

Accounts Payable

Included in accounts payable are book overdrafts, net of deposits on hand, on disbursement accounts that are replenished when checks are presented for payment.

Income Taxes

Income taxes are accounted for under the asset and liability method. 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 basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has the ability and intent to recover in a tax-free manner assets (or liabilities) with book/tax basis differences for which no deferred taxes have been provided, in accordance with ASC Topic 740, *Income Taxes.* Accordingly, the Company did not provide deferred income taxes on the bargain purchase gain of $158,341 on the FGL Acquisition or the gain on contingent purchase price reduction of $41,000 in Fiscal 2011 and 2012, respectively.

The Company recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that has a greater than 50% likelihood of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Accrued interest expense and penalties related to uncertain tax positions are recorded in Income tax (benefit) expense in the accompanying Consolidated Statements of Operations.

Contractholder Funds and Future Policy Benefits

The liabilities for contractholder funds and future policy benefits for investment contracts and IUL policies consist of contract account balances that accrue to the benefit of the contractholders, excluding surrender charges. Investment contracts include FIAs, deferred annuities and immediate annuities without life contingencies. The liabilities for future insurance contract benefits and claim reserves for traditional life policies and pay-out annuity policies are computed using assumptions for investment yields, mortality and withdrawals based principally on generally accepted actuarial methods and assumptions at the time of contract issue. Assumptions for contracts in-force as of the FGL Acquisition Date were updated as of that date.

Liabilities for the secondary guarantees on IUL-type products or Investment-type contracts are calculated by multiplying the benefit ratio by the cumulative assessments recorded from contract inception through the balance sheet date less the cumulative secondary guarantee benefit payments plus interest. If experience or assumption changes result in a new benefit ratio, the reserves are adjusted to reflect the changes in a manner similar to the unlocking of VOBA and DAC. The accounting for secondary guarantee benefits impacts, and is impacted by, EGPs used to calculate amortization of VOBA and DAC.

FIA contracts are equal to the total of the policyholder account values before surrender charges, and additional reserves established on certain features offered that link interest credited to an equity index. These features create an embedded derivative that is not clearly and closely related to the host insurance contract. The embedded derivative is carried at fair value with changes in fair value reported in the accompanying Consolidated Statements of Operations.

Federal Home Loan Bank of Atlanta Agreements

Contractholder funds include funds related to funding agreements that have been issued to the Federal Home Loan Bank of Atlanta (FHLB) as a funding medium for single premium funding agreements issued by FGL to the FHLB.

Funding agreements were issued to the FHLB in 2003, 2004, 2005 and 2011. The funding agreements (i.e., immediate annuity contracts without life contingencies) provide a guaranteed stream of payments. Single premiums were received at the initiation of the funding agreements and were in the form of advances from the

FHLB. Payments under the funding agreements extend through 2022. The reserves for the funding agreements totaled $364,140 and $169,580 at September 30, 2012 and 2011, respectively, and are included in Contractholder funds in the accompanying Consolidated Balance Sheets.

In accordance with the agreements, the investments supporting the funding agreement liabilities are pledged as collateral to secure the FHLB funding agreement liabilities. The collateral investments had a fair value of $390,563 and $191,331 at September 30, 2012 and 2011, respectively.

Foreign Currency Translation

Local currencies are considered the functional currencies for most of the Company s operations outside the United States. Assets and liabilities of the Company s foreign subsidiaries are translated at the rate of exchange existing at year-end, with revenues, expenses, and cash flows translated at the average of the monthly exchange rates. Adjustments resulting from translation of the financial statements are recorded as a component of AOCI. Also included in AOCI are the effects of exchange rate changes on intercompany balances of a long-term nature.

As of September 30, 2012 and 2011, accumulated (losses) gains related to foreign currency translation adjustments of $(129) and $4,448 (net of taxes and non-controlling interest), respectively, were reflected in the accompanying Consolidated Balance Sheets in AOCI.

Foreign currency transaction gains and losses related to assets and liabilities that are denominated in a currency other than the functional currency are reported in the Consolidated Statements of Operations in the period they occur. Exchange losses on foreign currency transactions aggregating $1,654, $3,370 and $13,336 for Fiscal 2012, 2011 and 2010, respectively, are included in Other expense, net in the accompanying Consolidated Statements of Operations.

Shipping and Handling Costs

Shipping and handling costs, which are included in Selling, general and administrative expenses in the accompanying Consolidated Statements of Operations, include costs incurred with third-party carriers to transport products to customers and salaries and overhead costs related to activities to prepare the Company s products for shipment at the Company s distribution facilities. The Company incurred shipping and handling costs of $198,152, $201,480 and $161,148 during Fiscal 2012, 2011 and 2010, respectively.

Advertising Costs

Advertising costs, which are included in Selling, general and administrative expenses in the accompanying Consolidated Statements of Operations, include agency fees and other costs to create advertisements, as well as costs paid to third parties to print or broadcast the Company s advertisements. The Company incurred advertising costs of $20,706, $30,673 and $37,520 during Fiscal 2012, 2011 and 2010, respectively.

Research and Development Costs

Research and development costs are charged to Selling, general and administrative expenses in the period they are incurred. The Company incurred research and development costs of $33,087, $32,901 and $31,013 during Fiscal 2012, 2011 and 2010, respectively.

Environmental Expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed or capitalized as appropriate. The Company determines its liability for environmental matters on a site-by-site basis and records a liability at the time when it is probable that a liability has been incurred and such liability can be reasonably estimated. The estimated liability is not reduced for possible recoveries from insurance carriers. Estimated environmental remediation expenditures are included in the determination of the net realizable value recorded for assets held for sale.

Comprehensive Income (Loss)

Comprehensive income (loss) includes foreign currency translation gains and losses on assets and liabilities of foreign subsidiaries, effects of exchange rate changes on intercompany balances of a long-term nature and transactions designated as a hedge of a net investment in a foreign subsidiary, deferred gains and losses on derivative financial instruments designated as cash flow hedges, actuarial adjustments to pension plans, and unrealized gains (losses) and non-credit related other-than-temporary impairments on investment securities of the insurance segment classified as available-for-sale. Except for gains and losses resulting from exchange rate changes on intercompany balances of a long-term nature, the Company did not provide income taxes on currency translation adjustments prior to Fiscal 2012, as earnings from international subsidiaries were considered to be permanently reinvested. As of the beginning of Fiscal 2012, earnings from international subsidiaries are no longer considered to be permanently reinvested by the Company. Net unrealized gains and losses on investment securities classified as available-for-sale by FGL are reduced by deferred income taxes and adjustments to intangible assets, including VOBA and DAC, that would have resulted had such gains and losses been realized (see Note 14).

Restructuring and Related Charges

Restructuring charges are recognized and measured according to the provisions of ASC Topic 420, *Exit or Disposal Cost Obligations,* (ASC 420). Under ASC 420, restructuring charges include, but are not limited to, termination and related costs consisting primarily of one-time termination benefits such as severance costs and retention bonuses, and contract termination costs consisting primarily of lease termination costs. Related charges, as defined by the Company, include, but are not limited to, other costs directly associated with exit and integration activities, including impairment of properties and other assets, departmental costs of full-time incremental integration employees, and any other items related to the exit or integration activities. Costs for such activities are estimated by management after evaluating detailed analyses of the cost to be incurred. Restructuring and related charges are reflected in Cost of goods sold and Selling, general and administrative expenses as applicable (see Note 23).

Benefits and Other Changes in Policy Reserves

Benefit expenses for deferred annuity, FIA and IUL policies include benefit claims incurred during the period in excess of contract account balances. Other changes in policy reserves also include the change in reserves for life insurance products with secondary guarantee benefits. For traditional life, policy benefit claims are charged to expense in the period that the claims are incurred.

Reclassifications and Retrospective Adjustments

Certain prior year amounts have been reclassified or combined to conform to the current year presentation. These reclassifications and combinations had no effect on previously reported results of operations or accumulated deficit. As discussed further in Note 22, in Fiscal 2012 the Company finalized the provisional acquisition accounting balances for the FGL Acquisition, resulting in retrospective adjustments which increased the bargain purchase gain and net income by $7,264 in Fiscal 2011.

Recent Accounting Pronouncements Not Yet Adopted

Presentation of Comprehensive Income

In June 2011, the Financial Accounting Standards Board (FASB) issued amended disclosure requirements to report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This guidance will be effective for the Company beginning in the fiscal year ending September 30, 2013. The Company does not expect the guidance to impact its consolidated financial statements, as such guidance only requires a change in the format of presentation.

Impairment Testing

In September 2011, the FASB issued new accounting guidance intended to simplify how an entity tests goodwill for impairment. The guidance will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting guidance is effective for the Company for the annual and any interim goodwill impairment tests performed beginning in the fiscal year ending September 30, 2013. The Company does not expect the adoption of this guidance to have a significant impact on its consolidated financial statements.

Additionally, in July 2012, the FASB issued new accounting guidance intended to simplify how an entity tests indefinite-lived intangible assets for impairment. The guidance will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. An entity will no longer be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting guidance is effective for the Company for the annual and any interim indefinite-lived intangible asset impairment tests performed for the fiscal year ending September 30, 2013. The Company does not expect the adoption of this guidance to have a significant impact on its consolidated financial statements.

Offsetting Assets and Liabilities

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

(3) Significant Risks and Uncertainties

Use of Estimates

The preparation of financial statements in conformity with US 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 those estimates.

The Company s significant estimates which are susceptible to change in the near term relate to (1) recognition of deferred tax assets and related valuation allowances (see Notes 17 and 22), (2) fair value of certain invested assets and derivatives including embedded derivatives (see Notes 5, 6 and 7), (3) other-than-temporary impairments of available-for-sale investments (see Note 5), (4) fair value of equity conversion feature of preferred stock (see Note 7), (5) estimates of reserves for loss contingencies, including litigation, regulatory and environmental reserves (see Note 19), (6) valuation and impairment recognition for long-lived assets including properties, goodwill and intangibles (see Note 10) and (7) VOBA and DAC amortization (see Notes 2 and 10).

Concentrations of Credit Risk and Major Customers

Trade receivables subject the Company s consumer products segment 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, but 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. Provisions for losses on uncollectible trade receivables are determined based on ongoing evaluations of the Company s receivables, principally on the basis of historical collection experience and evaluations of the risks of nonpayment for a given customer.

The Company s consumer products segment 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 major customer represented approximately 23%, 24% and 22% of the Company s Net sales during Fiscal 2012, 2011 and 2010, respectively. This major customer also represented approximately 13% and 16% of the Company s trade accounts receivable, net as of September 30, 2012 and 2011, respectively (see Note 4).

Approximately 46%, 44% and 44% of the Company s Net sales during Fiscal 2012, 2011 and 2010, respectively, occurred outside of the United States. These sales and related receivables are subject to varying degrees of credit, currency, and political and economic risk. The Company monitors these risks and makes appropriate provisions for collectibility based on an assessment of the risks present.

Concentrations of Financial Instruments

As of September 30, 2012, the Company s most significant investment in one industry was FGL s investment securities in the banking industry with a fair value of $2,000,355, or 12%, of the invested assets portfolio. FGL s holdings in this industry includes investments in 118 different issuers with the top ten investments accounting for 36% of the total holdings in this industry. As of September 30, 2012, FGL s exposure to sub-prime and Alternative-A residential mortgage-backed securities was $233,318 and $121,629, or approximately 1% of FGL s invested assets. As of September 30, 2012 and 2011, the Company had investments in 8 and 19 issuers that exceeded 10% of stockholders equity with a fair value of $1,081,955 and $2,126,380, or 6% and 13% of the invested assets portfolio, respectively. Additionally, the Company s largest concentration in any single issuer as of September 30, 2012 and 2011 had a fair value of $152,876 and $159,265, or approximately 1% of the invested assets portfolio.

Concentrations of Financial and Capital Markets Risk

Financial markets in the United States and elsewhere have experienced extreme volatility and disruption for more than three years, due largely to the stresses affecting the global banking system. Like other life insurers, FGL has been adversely affected by these conditions. FGL is exposed to financial and capital markets risk, including changes in interest rates and credit spreads which have had an adverse effect on FGL s results of operations, financial condition and liquidity prior to the FGL Acquisition. As discussed further in the following paragraph regarding risk factors, FGL expects to continue to face challenges and uncertainties that could adversely affect FGL s results of operations and financial condition.

FGL s exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. A rise in interest rates, in the absence of other countervailing changes, will decrease the net unrealized gain position of FGL s investment portfolio and, if long-term interest rates rise dramatically within a six to twelve month time period, certain of FGL s products may be exposed to disintermediation risk. Disintermediation risk refers to the risk that policyholders may surrender their contracts in a rising interest rate environment, requiring FGL to liquidate assets in an unrealized loss position. This risk is mitigated to some extent by the high level of surrender charge protection provided by FGL s products.

Concentration of Reinsurance Risk

FGL has a significant concentration of reinsurance with Wilton Reassurance Company (Wilton Re) (see Note 20) that could have a material impact on FGL s financial position in the event that Wilton Re fails to perform its obligations under the various reinsurance treaties. As of September 30, 2012, the net amount recoverable from Wilton Re was $1,317,114. FGL monitors both the financial condition of individual reinsurers and risk concentration arising from similar geographic regions, activities and economic characteristics of reinsurers to reduce the risk of default by such reinsurers.

(4) Receivables

Receivables, net consist of the following:

	September 30, 2012	September 30, 2011
Trade accounts receivable	$ 357,171	$ 370,733
Contingent purchase price reduction receivable (Note 22)	41,000	
Other receivables	38,116	37,678
	436,287	408,411
Less: Allowance for doubtful trade accounts receivable	21,870	14,128
	$ 414,417	$ 394,283

The following is an analysis of the allowance for doubtful trade accounts receivable:

Period	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Other Adjustments	Balance at End of Period
Fiscal 2012	$ 14,128	$ 7,742	$	$	$ 21,870
Fiscal 2011	4,351	9,777			14,128
Fiscal 2010	1,011	3,340			4,351

(5) Investments

Consumer Products and Other

The Company s short-term investments are summarized as follows:

	September 30, 2012	September 30, 2011
Trading:		
Marketable equity securities	$ 146,842	$ 262,085
Marketable debt securities		12,665
	146,842	274,750
Held to maturity:		
U.S. Treasury securities	34,735	75,638
Certificate of deposit	251	250
	34,986	75,888

Total short-term investments	$ 181,828	$ 350,638

There were $45,004 and $44,030 of net unrealized losses recognized in Short-term investments that relate to trading securities held at September 30, 2012 and 2011, respectively.

Insurance and Financial Services

Investments of FGL and Salus at September 30, 2012 and 2011 are summarized as follows:

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value and Carrying Value
Available-for-sale securities				
Asset-backed securities	$ 1,010,938	$ 18,553	$ (1,609)	$ 1,027,882
Commercial mortgage-backed securities	520,043	36,178	(2,407)	553,814
Corporates	10,211,804	807,175	(9,968)	11,009,011
Equities	237,499	11,860	(1,272)	248,087
Hybrids	519,009	18,836	(9,550)	528,295
Municipals	1,083,231	141,854	(1,090)	1,223,995
Agency residential mortgage-backed securities	149,455	5,769	(334)	154,890
Non-agency residential mortgage-backed securities	629,122	35,799	(4,262)	660,659
U.S. Government	917,452	12,915		930,367
Total available-for-sale securities	15,278,553	1,088,939	(30,492)	16,337,000
Derivative investments	142,123	66,973	(8,429)	200,667
Asset-backed loans and other invested assets	198,868			198,868
Total investments	$ 15,619,544	$ 1,155,912	$ (38,921)	$ 16,736,535

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value and Carrying Value
Available-for-sale securities				
Asset-backed securities	$ 501,469	$ 1,785	$ (2,770)	$ 500,484
Commercial mortgage-backed securities	580,313	3,427	(18,163)	565,577
Corporates	11,479,862	506,264	(130,352)	11,855,774
Equities	292,112	3,964	(9,033)	287,043
Hybrids	699,915	10,429	(51,055)	659,289
Municipals	824,562	111,929	(7)	936,484
Agency residential mortgage-backed securities	217,354	4,966	(295)	222,025
Non-agency residential mortgage-backed securities	465,666	1,971	(23,120)	444,517
U.S. Government	175,054	8,270		183,324
Total available-for-sale securities	15,236,307	653,005	(234,795)	15,654,517
Derivative investments	171,612	405	(119,682)	52,335
Other invested assets	44,279			44,279
Total investments	$ 15,452,198	$ 653,410	$ (354,477)	$ 15,751,131

Included in AOCI were cumulative unrealized gains of $851 and $524 and unrealized losses of $1,880 and $24 related to the non-credit portion of other-than-temporary impairments on non-agency residential-mortgage-backed securities at September 30, 2012 and 2011, respectively.

Securities held on deposit with various state regulatory authorities had a fair value of $20,692 and $17,867 at September 30, 2012 and 2011, respectively.

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

	September 30, 2012	
	Amortized Cost	**Fair Value**
Corporate, Non-structured Hybrids, Municipal and U.S. Government securities:		
Due in one year or less	$ 700,491	$ 703,931
Due after one year through five years	3,230,602	3,324,453
Due after five years through ten years	3,692,333	3,995,811
Due after ten years	4,972,233	5,532,389
Subtotal	12,595,659	13,556,584
Other securities which provide for periodic payments:		
Asset-backed securities	1,010,938	1,027,882
Commercial-mortgage-backed securities	520,043	553,814
Structured hybrids	135,837	135,084
Agency residential mortgage-backed securities	149,455	154,890
Non-agency residential mortgage-backed securities	629,122	660,659
Total fixed maturity available-for-sale securities	$ 15,041,054	$ 16,088,913

As part of FGL s ongoing securities monitoring process, FGL evaluates whether securities in an unrealized loss position could potentially be other-than-temporarily impaired. Excluding the non-credit portion of other-than-temporary impairments on non-agency residential-mortgage backed securities above, FGL has concluded that the fair values of the securities presented in the table below were not other-than-temporarily impaired as of September 30, 2012. This conclusion is derived from the issuers continued satisfaction of the securities obligations in accordance with their contractual terms along with the expectation that they will continue to do so. Also contributing to this conclusion is FGL s determination that it is more likely than not that FGL will not be required to sell these securities prior to recovery, an assessment of the issuers financial condition, and other objective evidence. As it specifically relates to asset-backed securities and commercial mortgage-backed securities, the present value of cash flows expected to be collected is at least the amount of the amortized cost basis of the security and FGL s management has the intent to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value.

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

	September 30, 2012					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	$ 169,794	$ (1,042)	$ 7,533	$ (567)	$ 177,327	$ (1,609)
Commercial-mortgage-backed securities	813	(853)	10,716	(1,554)	11,529	(2,407)
Corporates	411,310	(8,124)	45,482	(1,844)	456,792	(9,968)
Equities			44,513	(1,272)	44,513	(1,272)
Hybrids	13,407	(339)	107,707	(9,211)	121,114	(9,550)
Municipals	71,160	(1,090)			71,160	(1,090)
Agency residential mortgage-backed securities	1,754	(199)	6,110	(135)	7,864	(334)
Non-agency residential mortgage-backed securities	12,853	(289)	101,777	(3,973)	114,630	(4,262)
Total available-for-sale securities	$ 681,091	$ (11,936)	$ 323,838	$ (18,556)	$ 1,004,929	$ (30,492)
Total number of available-for-sale securities in an unrealized loss position		100		56		156

	September 30, 2011					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	$ 275,135	$ (2,770)	$	$	$ 275,135	$ (2,770)
Commercial-mortgage-backed securities	338,865	(18,163)			338,865	(18,163)
Corporates	3,081,556	(130,352)			3,081,556	(130,352)
Equities	99,772	(9,033)			99,772	(9,033)
Hybrids	450,376	(51,055)			450,376	(51,055)
Municipals	1,137	(7)			1,137	(7)
Agency residential mortgage-backed securities	25,820	(295)			25,820	(295)
Non-agency residential mortgage-backed securities	375,349	(23,120)			375,349	(23,120)
Total available-for-sale securities	$ 4,648,010	$ (234,795)	$	$	$ 4,648,010	$ (234,795)
Total number of available-for-sale securities in an unrealized loss position		505				505

As the amortized cost of all investments was adjusted to fair value as of the FGL Acquisition Date, no individual securities had been in a continuous unrealized loss position greater than twelve months as of September 30, 2011.

At September 30, 2012 and 2011, securities in an unrealized loss position were primarily concentrated in investment grade corporate debt instruments, residential mortgage-backed securities and hybrids. Total unrealized losses were $30,492 and $234,795 at September 30, 2012 and 2011, respectively. Exposure to finance-related holdings represents the largest component of the unrealized loss position in the portfolio, as spreads for holdings in this industry sector remain above historical levels. Similar risk aversion effects have impacted prices of commercial mortgage-backed securities and non-agency residential mortgage-backed securities. FGL has added to its non-agency residential mortgage-backed holdings during the year by purchasing securities with an A credit rating or above at discounts. As of September 30, 2012, these securities were in an unrealized gain position. FGL has not added to its commercial mortgage-backed security exposure. The improvement in unrealized loss positions in corporate debt instruments from September 30, 2011 to September 30, 2012 was primarily a result of improving conditions for corporate issues.

The combination of ongoing liquidity efforts by global central banks to stem contagion from a Eurozone slowdown, and accommodative monetary policy (especially in the U.S.) that is keeping base interest rates low, helped drive strong performance in risk assets in the September 2012 quarter. The prices of securities exposed to the residential real estate market in the U.S. also increased, which management believes is a result of the decline in risk aversion and data indicating that the housing market in the U.S. has begun to improve.

At September 30, 2012 and 2011, securities with a fair value of $1,192 and $31,320, respectively, were depressed greater than 20% of amortized cost, which represented less than 1% of the carrying values of all investments. The improvement in unrealized loss positions from September 30, 2011 is primarily due to two factors: (i) securities at depressed prices were sold over the past fiscal year, reducing the size of holdings in an unrealized loss position and (ii) improving risk sentiment has lifted the market prices of investment grade bonds. Based upon FGL s current evaluation of these securities in accordance with its impairment policy and its intent to retain these investments for a period of time sufficient to allow for recovery in value, FGL has determined that these securities are not other-than-temporarily impaired.

The following table provides a reconciliation of the beginning and ending balances of the credit loss portion of other-than-temporary impairments on fixed maturity securities held by FGL at September 30, 2012 and 2011, for which a portion of the other-than-temporary impairment was recognized in AOCI:

	Year Ended September 30,	
	2012	**2011**
Beginning balance	$ 667	$
Increases attributable to credit losses on securities:		
Other-than-temporary impairment was previously recognized	112	
Other-than-temporary impairment was not previously recognized	1,902	667
Ending balance	$ 2,681	$ 667

For the year ended September 30, 2012, FGL recognized impairment losses in operations totaling $22,807, including credit impairments of $5,712 and change-of-intent impairments of $17,095, as well as non-credit losses in other comprehensive income totaling $1,529, for investments which experienced other-than-temporary impairments and had an amortized cost of $162,349 and a fair value of $138,013 at the time of impairment. For the year ended September 30, 2011, FGL recognized impairment losses in operations totaling $17,966, including credit impairments of $5,059 and change-of-intent impairments of $12,907, as well as non-credit gains totaling $500 in other comprehensive income, for investments which experienced other-than-temporary impairments and had an amortized cost of $103,312 and a fair value of $85,846 at the time of impairment. Details underlying write-downs taken as a result of other-than-temporary impairments that were recognized in operations and included in net realized gains on securities were as follows:

	Year Ended September 30, 2012	Year Ended September 30, 2011
Other-than-temporary impairments recognized in net income:		
Commercial mortgage-backed securities	$	$ 20
Corporates	4,116	1,462
Equities		11,007
Hybrids	9,688	
Non-agency residential mortgage-backed securities	7,531	5,059
Other invested assets	1,472	418
Total other-than-temporary impairments	$ 22,807	$ 17,966

Asset-backed Loans

Salus portfolio of asset-backed loans receivable, included in Asset-backed loans and other invested assets in the Consolidated Balance Sheet as of September 30, 2012, consisted of the following:

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

As further discussed in Note 2, Salus establishes its allowance for credit losses through a provision for credit losses based on its evaluation of the credit quality of its loan portfolio. The following table presents the activity in its allowance for credit losses for the year ended September 30, 2012:

	Year Ended September 30, 2012
Allowance for credit losses:	
Balance at beginning of year	$
Provision for credit losses	1,360
Charge-offs	
Recoveries	
Balance at end of year	$ 1,360

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

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

Asset-backed loans, by credit quality rating:

NAIC Designation	Credit Equivalent Rating	September 30, 2012	Percent of Total
1	AAA/AA/A	$ 75,737	42%
2	BBB	94,901	52%
3	B	10,773	6%
Not rated		3	
	Total asset-backed loans	$ 181,414	100%

Net Investment Income

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

	Year Ended September 30, 2012	Year Ended September 30, 2011
Fixed maturity available-for-sale securities	$ 707,132	$ 364,771
Equity available-for-sale securities	13,966	10,190
Invested cash and short-term investments	4,921	129
Policy loans	707	1,511
Other investments	7,736	326
Gross investment income	734,462	376,927
External investment expense	(11,729)	(7,087)
Net investment income	$ 722,733	$ 369,840

Net Investment Gains (Losses)

Details underlying Net investment gains (losses) reported in the accompanying Consolidated Statements of Operations were as follows:

	Year Ended September 30, 2012	2011
Net realized gains on fixed maturity available-for-sale securities	$ 264,408	$ 16,912
Realized gains (losses) on equity securities	924	(10,977)
Net realized gains on securities	265,332	5,935
Realized losses on certain derivative instruments	(10,280)	(44,776)
Unrealized gains (losses) on certain derivative instruments	156,332	(125,976)
Change in fair value of derivatives	146,052	(170,752)
Realized losses on other invested assets	(1,384)	(2,074)
Net investment gains (losses)	$ 410,000	$ (166,891)

Additional detail regarding the net investment losses is as follows:

	Year Ended September 30, 2012	2011
Total other-than-temporary impairments	$ (24,336)	$ (17,466)
Less non-credit portion of other-than-temporary impairments included in other comprehensive income	(1,529)	500
Net other-than-temporary impairments	(22,807)	(17,966)
Gains (losses) on derivative instruments	146,052	(170,752)
Other realized investment gains	286,755	21,827
Net investment gains (losses)	$ 410,000	$ (166,891)

For the years ended September 30, 2012 and 2011, proceeds from the sale of fixed maturity available-for-sale securities, including assets transferred to Wilton Re as discussed in Note 15 totaled $4,602,958 and $1,803,964, gross gains on such sales totaled $295,923 and $41,989 and gross losses totaled $13,842 and $17,109, respectively.

Underlying write-downs taken to fixed maturity available-for-sale securities as a result of other-than-temporary impairments that were recognized in earnings and included in net realized gains on securities above were $22,807 and $17,966 for the year ended September 30, 2012 and 2011, respectively. The portion of other-than-temporary impairments recognized in AOCI is disclosed in Note 14.

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

	Year Ended September 30,		
	2012	2011	2010
Proceeds from investments sold, matured or repaid:			
Available-for-sale	$ 5,833,423	$ 1,482,195	$
Held-to-maturity	109,636	101,755	30,094
Trading (acquired for holding)	106,074	29,532	
Derivatives and other	157,563	86,437	
	$ 6,206,696	$ 1,699,919	$ 30,094
Cost of investments acquired:			
Available-for-sale	$ 5,640,090	$ 1,285,951	$
Held-to-maturity	68,733	123,428	3,989
Trading	122,289	332,715	
Derivatives and other	141,603	66,905	
	$ 5,972,715	$ 1,808,999	$ 3,989

(6) Derivative Financial Instruments

Consumer Products and Other

The fair value of outstanding derivative contracts recorded in the Consumer Products and Other sections of the accompanying Consolidated Balance Sheets were as follows:

		September 30,	
Asset Derivatives	**Classification**	**2012**	**2011**
Derivatives designated as hedging instruments:			
Commodity contracts	Receivables	$ 985	$ 274
Commodity contracts	Deferred charges and other assets	1,017	
Foreign exchange contracts	Receivables	1,194	3,189
Total asset derivatives designated as hedging instruments		3,196	3,463
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Receivables	41	
Total asset derivatives		$ 3,237	$ 3,463

		September 30,	
Liability Derivatives	**Classification**	**2012**	**2011**
Derivatives designated as hedging instruments:			
Interest rate contracts	Accounts payable	$	$ 1,246
Interest rate contracts	Accrued and other current liabilities		708
Commodity contracts	Accounts payable	9	1,228
Commodity contracts	Other liabilities		4
Foreign exchange contracts	Accounts payable	3,063	2,698
Total liability derivatives designated as hedging instruments		3,072	5,884
Derivatives not designated as hedging instruments:			

Foreign exchange contracts	Accounts payable	3,967	10,945
Foreign exchange contracts	Other liabilities	2,926	12,036
Equity conversion feature of preferred stock	Equity conversion feature of preferred stock	231,950	75,350
Total liability derivatives		$ 241,915	$ 104,215

Changes in AOCI from Derivative Instruments

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

The following table summarizes the pretax impact of derivative instruments designated as cash flow hedges in the accompanying Consolidated Statements of Operations, and within AOCI, for the years ended September 30, 2012, 2011 and 2010:

Derivatives in Cash Flow Hedging Relationships Year Ended September 30,	**Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)**			**Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)**			**Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)**			**Location of Gain (Loss) Recognized in Income on Derivatives**
	2012	**2011**	**2010**	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**	
Commodity contracts	$ 1,606	$ (1,750)	$ 3,646	$ (1,148)	$ 2,617	$ 719	$ 94	$ (47)	$ (1)	Cost of goods sold
Interest rate contracts	15	(88)	(13,955)	(864)	(3,319)	(4,439)		(205) (a)	(6,112) (b)	Interest expense
Foreign exchange contracts	61	(487)	(752)	(474)	(131)	(812)				Net sales
Foreign exchange contracts	(3,506)	(3,667)	(4,560)	(611)	(12,384)	2,481				Cost of goods sold
Total	$ (1,824)	$ (5,992)	$ (15,621)	$ (3,097)	$ (13,217)	$ (2,051)	$ 94	$ (252)	$ (6,113)	

(a) Reclassified from AOCI associated with the prepayment of portions of Spectrum Brands senior credit facility (see Note 12).
(b) Includes $(4,305) reclassified from AOCI associated with the refinancing of Spectrum Brands senior credit facility (see Note 12).

Fair Value Contracts and Other

For derivative instruments that are used to economically hedge the fair value of Spectrum Brands third party and intercompany foreign currency payments, commodity purchases and interest rate payments, and the equity conversion feature of the Company s Preferred Stock, the gain (loss) associated with the derivative contract is recognized in earnings in the period of change. During the years ended September 30, 2012, 2011 and 2010, the Company recognized the following gains (losses) on those derivatives:

Derivatives Not Designated as Hedging Instruments	**Amount of Gain (Loss) Recognized in Income on Derivatives Year Ended September 30, 2012**	**2011**	**2010**	**Location of Gain (Loss) Recognized in Income on Derivatives**
Commodity contracts	$	$	$ 153	Cost of goods sold
Foreign exchange contracts	5,916	(5,052)	(42,039)	Other expense, net
Equity conversion feature of preferred stock	(156,600)	27,910		(Increase) decrease in fair value of equity conversion feature of preferred stock
Total	$ (150,684)	$ 22,858	$ (41,886)	

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Additional Disclosures

Cash Flow Hedges

Spectrum Brands has used interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the changes in fair value recorded in AOCI and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or receivables, respectively, and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. At September 30, 2012, Spectrum Brands did not have any interest rate swaps outstanding. At September 30, 2011, Spectrum Brands had a portfolio of U.S. dollar-denominated interest rate swaps outstanding which effectively fixed the interest on floating rate debt (exclusive of lender spreads) as follows: 2.25% for a notional principal amount of $200,000 through December 2011 and 2.29% for a notional principal amount of $300,000 through January 2012. During Fiscal 2010, in connection with the refinancing of its senior credit facilities, Spectrum Brands terminated a portfolio of Euro-denominated interest rate swaps at a cash loss of $(3,499) which was recognized as an adjustment to interest expense. At September 30, 2012, there were no unrecognized gains or losses related to interest rate swaps recorded in AOCI. The derivative net (loss) on the U.S. dollar swap contracts recorded in AOCI at September 30, 2011 was $(467), net of tax benefit of $0 and noncontrolling interest of $412.

In connection with the SB/RH Merger and the refinancing of Spectrum Brands existing senior credit facilities associated with the closing of the SB/RH Merger, Spectrum Brands assessed the prospective effectiveness of its interest rate cash flow hedges during Fiscal 2010. As a result, during Fiscal 2010, Spectrum Brands ceased hedge accounting and recorded a loss of $(1,451) as an adjustment to interest expense for the change in fair value of its U.S. dollar swaps from the date of de-designation until the U.S. dollar swaps were re-designated. Spectrum Brands also evaluated whether the amounts recorded in AOCI associated with the forecasted U.S. dollar swap transactions were probable of not occurring and determined that occurrence of the transactions was still reasonably possible. Upon the refinancing of then existing senior credit facility associated with the closing of the SB/RH Merger, Spectrum Brands re-designated the U.S. dollar swaps as cash flow hedges of certain scheduled interest rate payments on its new $750,000 U.S. dollar term loan expiring June 17, 2016.

Spectrum Brands periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign currency denominated third party and intercompany sales or payments. These obligations generally require Spectrum Brands to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Australian Dollars, Brazilian Reals, Canadian Dollars or Japanese Yen. These foreign exchange contracts are cash flow hedges of fluctuating foreign exchange related to sales of product or raw material purchases. Until the sale or purchase is recognized, the fair value of the related hedge is recorded in AOCI and as a derivative hedge asset or liability, as applicable. At the time the sale or purchase is recognized, the fair value of the related hedge is reclassified as an adjustment to Net sales or purchase price variance in Cost of goods sold.

At September 30, 2012, Spectrum Brands had a series of foreign exchange derivative contracts outstanding through September 2013 with a contract value of $202,453. At September 30, 2011, it had a series of foreign exchange derivative contracts outstanding through September 30, 2012 with a contract value of $223,417. The derivative net (loss) on these contracts recorded in AOCI at September 30, 2012 was $(809), net of tax benefit of $565 and noncontrolling interest of $600. The derivative net gain on these contracts recorded in AOCI at September 30, 2011 was $126, net of tax expense of $148 and noncontrolling interest of $112. At September 30, 2012, the portion of derivative net losses estimated to be reclassified from AOCI into earnings over the next twelve months is $(809), net of tax and noncontrolling interest.

Spectrum Brands is exposed to risk from fluctuating prices for raw materials, specifically zinc used in its manufacturing processes. Spectrum Brands 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 September 30, 2012, Spectrum Brands had a series of such swap contracts outstanding through September 2014 for 15 tons of raw materials with a contract value of $29,207. At September 30, 2011, it had a series of such swap contracts outstanding through December 2012 for 9 tons with a contract value of $18,858. The derivative net gain on these contracts recorded in AOCI at September 30, 2012 was $934, net of tax expense of $320 and noncontrolling interest of $693. The derivative net (loss) on these contracts recorded in AOCI at September 30, 2011 was $(364), net of tax benefit of $121 and noncontrolling interest of $322. At September 30, 2012, the portion of derivative net gains estimated to be reclassified from AOCI into earnings over the next twelve months is $457, net of tax and noncontrolling interest.

Fair Value Contracts

Spectrum Brands periodically enters into forward and swap foreign exchange contracts to economically hedge the risk from third party and intercompany payments resulting from existing obligations. These obligations generally require Spectrum Brands to exchange foreign currencies for U.S. Dollars, Euros or Australian Dollars. These foreign exchange contracts are economic fair value hedges of a related liability or asset recorded in the accompanying Consolidated Balance Sheets. The gain or loss on the derivative hedge contracts is recorded in earnings as an offset to the change in value of the related liability or asset at each period end. At September 30, 2012 and 2011, Spectrum Brands had $172,581 and $265,974, respectively, of notional value for such foreign exchange derivative contracts outstanding.

Credit Risk

Spectrum Brands is exposed to the risk of default by the counterparties with which Spectrum Brands transacts and generally does not require collateral or other security to support financial instruments subject to credit risk. Spectrum Brands monitors counterparty credit risk on an individual basis by periodically assessing each such counterparty s credit rating exposure. The maximum loss due to credit risk equals the fair value of the gross asset derivatives which are primarily concentrated with two foreign financial institution counterparties. Spectrum Brands considers these exposures when measuring its credit reserve on its derivative assets, which was $46 and $18 at September 30, 2012 and 2011, respectively.

Spectrum Brands standard contracts do not contain credit risk related contingent features whereby Spectrum Brands would be required to post additional cash collateral as a result of a credit event. However, Spectrum Brands is typically required to post collateral in the normal course of business to offset its liability positions. At September 30, 2012 and 2011, Spectrum Brands had posted cash collateral of $50 and $418, respectively, related to such liability positions. At September 30, 2012, Spectrum Brands had no standby letters of credit, compared to posted letters of credit of $2,000 at September 30, 2011, related to such liability positions. The cash collateral is included in Receivables, net within the accompanying Consolidated Balance Sheets.

Insurance and Financial Services

The carrying amounts (which equal fair value) of derivative instruments of FGL, including derivative instruments embedded in FIA contracts, is as follows:

	Year Ended September 30, 2012	2011
Assets:		
Derivative investments:		
Call options	$ 200,667	$ 52,335
Liabilities:		
Contractholder funds:		
FIA embedded derivative	$ 1,550,805	$ 1,396,340
Other liabilities:		
Futures contracts	928	3,828
Available-for-sale embedded derivative		400
	$ 1,551,733	$ 1,400,568

The change in fair value of derivative instruments included in the accompanying Consolidated Statements of Operations is as follows:

	Year Ended September 30, 2012	2011
Revenues:		
Net investment gains (losses):		
Call options	$ 100,030	$ (142,665)
Futures contracts	46,022	(28,087)
	146,052	(170,752)
Net investment income:		
Available-for-sale embedded derivatives	400	19
	$ 146,452	$ (170,733)
Benefits and other changes in policy reserves:		
FIA embedded derivatives	$ 154,465	$ (69,968)

Additional Disclosures

FIA Contracts

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

FGL purchases derivatives consisting of a combination of call options and futures contracts on the applicable market indices to fund the index credits due to FIA contractholders. The call options are one, two and three year options purchased to match the funding requirements of the underlying policies. On the respective anniversary dates of the index policies, the index used to compute the interest credit is reset and FGL purchases new one, two

or three year call options to fund the next index credit. FGL manages the cost of these purchases through the terms of its FIA contracts, which permit FGL to change caps or participation rates, subject to guaranteed minimums on each contract s anniversary date. The change in the fair value of the call options and futures contracts is generally designed to offset the portion of the change in the fair value of the FIA embedded derivative related to index performance. The call options and futures contracts are marked to fair value with the change in fair value included as a component of Net investment gains (losses). The change in fair value of the call options and futures contracts includes the gains and losses recognized at the expiration of the instrument term or upon early termination and the changes in fair value of open positions.

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

Credit Risk

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

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

		September 30, 2012		September 30, 2011	
Counterparty	**Credit Rating (Moody s/S&P)**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Bank of America	Baa2/A-	$ 1,884,047	$ 64,101	$ 1,692,142	$ 14,637
Deutsche Bank	A2/A+	1,816,532	61,704	1,463,596	11,402
Morgan Stanley	Baa1/A-	1,634,686	51,630	1,629,247	15,373
Royal Bank of Scotland	Baa1/A-	353,875	19,595		
Barclay s Bank	A2/A+	131,255	3,081	385,189	4,105
Credit Suisse	A2/A	10,000	556	327,095	2,785
Nomura	Baa2/A			107,000	4,033
		$ 5,830,395	$ 200,667	$ 5,604,269	$ 52,335

Collateral Agreements

FGL is required to maintain minimum ratings as a matter of routine practice under its ISDA agreements. Under some ISDA agreements, FGL has agreed to maintain certain financial strength ratings. A downgrade below these levels provides the counterparty under the agreement the right to terminate the open derivative contracts between the parties, at which time any amounts payable by FGL or the counterparty would be dependent on the market value of the underlying derivative contracts. FGL s current rating allows multiple counterparties the right to terminate ISDA agreements. No ISDA agreements have been terminated, although the counterparties have reserved the right to terminate the ISDA agreements at any time. In certain transactions, FGL and the counterparty have entered into a collateral support agreement requiring either party to post collateral when the net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. As of September 30, 2012 and 2011, no collateral was posted by FGL s counterparties as they did not meet the net exposure thresholds. Accordingly, the maximum amount of loss due to credit risk that FGL would incur if parties to the call options failed completely to perform according to the terms of the contracts was $200,667 and $52,335 at September 30, 2012 and 2011, respectively.

FGL held 2,835 and 2,458 futures contracts at September 30, 2012 and 2011, respectively. The fair value of futures contracts represents the cumulative unsettled variation margin (open trade equity net of cash settlements). FGL provides cash collateral to the counterparties for the initial and variation margin on the futures contracts which is included in Cash and cash equivalents in the Insurance and Financial Services sections of the Consolidated Balance Sheets. The amount of collateral held by the counterparties for such contracts was $9,820 at both September 30, 2012 and 2011.

(7) Fair Value of Financial Instruments

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

Level 1	Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
Level 2	Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
Level 3	Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company s best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date based on the best information available in the circumstances.

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

When a determination is made to classify an asset or liability within Level 3 of the fair value hierarchy, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. Because certain securities trade in less liquid or illiquid markets with limited or no pricing information, the determination of fair value for these securities is inherently more difficult. However, Level 3 fair value investments may include, in addition to the unobservable or Level 3 inputs, observable components, which are components that are actively quoted or can be validated to market-based sources.

The carrying amounts and estimated fair values of the Company s consolidated financial instruments for which the disclosure of fair values is required, including financial assets and liabilities measured and carried at fair value on a recurring basis, with the exception of investment contracts, are summarized according to the hierarchy previously described as follows:

	September 30, 2012				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Consumer Products and Other					
Cash and cash equivalents	$ 408,889	$	$	$ 408,889	$ 408,889
Contingent purchase price reduction receivable			41,000	41,000	41,000
Short-term investments (including related interest receivable of $5)					
Equity securities trading	146,842			146,842	146,842
Fixed maturity securities held-to-maturity		35,000		35,000	34,991
Derivatives:					
Foreign exchange forward agreements		1,235		1,235	1,235
Commodity swap and option agreements		2,002		2,002	2,002
Insurance and Financial Services					
Cash and cash equivalents	1,059,572	2,250		1,061,822	1,061,822
Fixed maturity securities, available-for-sale:					
Asset-backed securities		1,012,027	15,855	1,027,882	1,027,882
Commercial mortgage-backed securities		548,791	5,023	553,814	553,814
Corporates		10,873,715	135,296	11,009,011	11,009,011
Hybrids		519,422	8,873	528,295	528,295
Municipals		1,223,995		1,223,995	1,223,995
Agency residential mortgage-backed securities		154,890		154,890	154,890
Non-agency residential mortgage-backed securities		660,659		660,659	660,659
U.S. Government	930,367			930,367	930,367
Equity securities available-for-sale		248,087		248,087	248,087
Derivative financial instruments		200,667		200,667	200,667
Asset-backed loans and other invested assets			198,868	198,868	198,868
Total financial assets	$ 2,545,670	$ 15,482,740	$ 404,915	$ 18,433,325	$ 18,433,316
Liabilities					
Consumer Products and Other					
Total debt	$ 524,000	$ 1,804,831	$	$ 2,328,831	$ 2,167,039
Derivatives:					
Foreign exchange forward agreements		9,956		9,956	9,956
Commodity swap and option agreements		9		9	9
Equity conversion feature of preferred stock			231,950	231,950	231,950
Redeemable preferred stock, excluding equity conversion feature			368,880	368,880	319,225
Insurance and Financial Services					
Derivatives:					
FIA embedded derivatives, included in contractholder funds			1,550,805	1,550,805	1,550,805
Futures contracts		928		928	928
Investment contracts, included in contractholder funds			12,271,882	12,271,882	13,739,670
Total financial liabilities	$ 524,000	$ 1,815,724	$ 14,423,517	$ 16,763,241	$ 18,019,582

	September 30, 2011				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Consumer Products and Other					
Cash and cash equivalents	$ 321,352	$	$	$ 321,352	$ 321,352
Short-term investments (including related interest receivable of $9)					
Equity securities trading	238,062	24,023		262,085	262,085
Fixed maturity securities held to maturity		75,899		75,899	75,897
Fixed maturity securities trading		12,665		12,665	12,665
Derivatives:					
Foreign exchange forward agreements		3,189		3,189	3,189
Commodity swap and option agreements		274		274	274
Insurance and Financial Services					
Cash and cash equivalents	813,239	2,768		816,007	816,007
Fixed maturity securities, available-for-sale:					
Asset-backed securities		125,966	374,518	500,484	500,484
Commercial mortgage-backed securities		565,577		565,577	565,577
Corporates		11,696,090	159,684	11,855,774	11,855,774
Hybrids		654,084	5,205	659,289	659,289
Municipals		936,484		936,484	936,484
Agency residential mortgage-backed securities		218,713	3,312	222,025	222,025
Non-agency residential mortgage-backed securities		440,758	3,759	444,517	444,517
U.S. Government	183,324			183,324	183,324
Equity securities available-for-sale		287,043		287,043	287,043
Derivative financial instruments		52,335		52,335	52,335
Other invested assets			44,279	44,279	44,279
Total financial assets	$ 1,555,977	$ 15,095,868	$ 590,757	$ 17,242,602	$ 17,242,600
Liabilities					
Consumer Products and Other					
Total debt	$ 500,000	$ 1,635,528	$	$ 2,135,528	$ 2,048,780
Derivatives:					
Foreign exchange forward agreements		25,679		25,679	25,679
Interest rate swap agreements		1,954		1,954	1,954
Commodity swap and option agreements		1,232		1,232	1,232
Equity conversion feature of preferred stock			75,350	75,350	75,350
Redeemable preferred stock, excluding equity conversion feature			337,060	337,060	292,437
Insurance and Financial Services					
Derivatives:					
FIA embedded derivatives, included in contractholder funds			1,396,340	1,396,340	1,396,340
Futures contracts		3,828		3,828	3,828
Available-for-sale embedded derivative			400	400	400
Investment contracts, included in contractholder funds			11,992,013	11,992,013	13,153,630
Note payable		95,000		95,000	95,000
Total financial liabilities	$ 500,000	$ 1,763,221	$ 13,801,163	$ 16,064,384	$ 17,094,630

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

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

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

FGL did not adjust prices received from third parties as of September 30, 2012 and 2011. However, FGL does analyze the third party valuation methodologies and its related inputs to perform assessments to determine the appropriate level within the fair value hierarchy.

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

Investment contracts include deferred annuities, FIAs, IUL and immediate annuities. The fair values of deferred annuity, FIAs, and IUL contracts are based on their cash surrender value (i.e. the cost FGL would incur to extinguish the liability) as these contracts are generally issued without an annuitization date. The fair value of immediate annuities contracts is derived by calculating a new fair value interest rate using the updated yield curve and treasury spreads as of the respective reporting date. At September 30, 2012 and 2011, this resulted in lower fair value reserves relative to the carrying value. FGL is not required to and has not estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the definition of insurance contracts that are exceptions from financial instruments that require disclosure of fair value. The fair value of FGL s note payable at September 30, 2011 approximated its carrying value as it was settled at such carrying value in October 2011.

Goodwill, intangible assets and other long-lived assets are also tested annually or if an event occurs that indicates an impairment loss may have been incurred (see Note 10) using fair value measurements with unobservable inputs (Level 3).

See Note 15 with respect to fair value measurements of the Company s pension plan assets.

Quantitative information regarding significant unobservable inputs used for recurring Level 3 fair value measurements of financial instruments carried at fair value as of September 30, 2012 is as follows:

	Fair Value at September 30, 2012	Valuation technique	Unobservable input(s)	Range (Weighted average)
Assets				
Contingent purchase price reduction receivable	$ 41,000	Discounted cash flow	Probability of collection Expected term Discount rate Credit insurance risk premium	88% - 96% (92%) 9 months 0.72% 11.7%
Asset-backed securities	15,855	Broker-quoted	Offered quotes	100% - 109.73% (103.09%)
Corporates	103,319	Broker-quoted	Offered quotes	0% - 140.61% (68.47%)
Corporates	31,977	Market pricing	Quoted prices	87.50% - 158.11% (97.89%)
Hybrids	8,873	Broker-quoted	Offered quotes	0% - 103% (25.35%)
Commercial mortgage-backed securities	5,023	Broker-quoted	Offered quotes	100.69%
Total	$ 206,047			
Liabilities				
FIA embedded derivatives, included in contractholder funds	$ 1,550,805	Discounted cash flow	Market value of option SWAP rates Mortality multiplier Surrender rates Non-performance spread	0% - 31.05% (3.55%) 0.76% - 1.7% (1.22%) 70% - 70% (70%) 2% - 50% (7%) 0.25% - 0.25% (0.25%)
Equity conversion feature of preferred stock	231,950	Monte Carlo simulation / Option model	Annualized volatility of equity Discount yield Non-cash accretion rate Calibration adjustment	41% 11.5% - 12.7% (11.9%) 0% 10% - 13% (10.9%)
Total	$ 1,782,755			

The significant unobservable inputs used in the fair value measurement of the contingent purchase price reduction receivable are the probability of collection depending on the outcomes of litigation and regulatory action, the expected term until payment, discount rate and the credit insurance risk premium. Generally, an increase in the assumptions for the expected term, discount rate or credit insurance risk premium would decrease the fair value of the contingent purchase price receivable. An increase in the probability of collection would increase the fair value of the contingent purchase price reduction receivable.

The significant unobservable inputs used in the fair value measurement of FIA embedded derivatives included in contractholder funds are market value of option, interest swap rates, mortality multiplier, surrender rates, and non-performance spread. The mortality multiplier is based on the 1983 annuity table and assumes the contractholder population is 50% female and 50% male. Significant increases (decreases) in the market value of option in isolation would result in a higher (lower) fair value measurement. Significant increases (decreases) in interest swap rates, mortality multiplier, surrender rates, or non-performance spread in isolation would result in a lower (higher) fair value measurement.

Generally, a change in any one unobservable input would not result in a change in any other unobservable input.

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

The following tables summarize changes to the Company s financial instruments carried at fair value and classified within Level 3 of the fair value hierarchy for the years ended September 30, 2012 and 2011 (none in Fiscal 2010). This summary excludes any impact of amortization of VOBA and DAC. The gains and losses below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

	Year Ended September 30, 2012					
		Total Gains (Losses)				
	Balance at Beginning of Period	Included in Earnings	Included in AOCI	Net Purchases, Sales & Settlements	Net Transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets						
Contingent purchase price reduction receivable	$	$ 41,000	$	$	$	$ 41,000
Fixed maturity securities, available-for-sale:						
Asset-backed securities	374,518		7,355	371,896	(737,914)	15,855
Commercial mortgage-backed securities			24	4,999		5,023
Corporates	159,684	28	(3,662)	(39,686)	18,932	135,296
Hybrids	5,205		(44)		3,712	8,873
Municipals		(2)	72	10,177	(10,247)	
Agency residential mortgage-backed securities	3,312		18		(3,330)	
Non-agency residential mortgage-backed securities	3,759	(126)	4	(777)	(2,860)	
Total assets at Level 3 fair value	$ 546,478	$ 40,900	$ 3,767	$ 346,609	$ (731,707)	$ 206,047
Liabilities						
FIA embedded derivatives, included in contractholder funds	$ (1,396,340)	$ (154,465)	$	$	$	$ (1,550,805)
Available-for-sale embedded derivatives	(400)	400				
Equity conversion feature of preferred stock	(75,350)	(156,600)				(231,950)
Total liabilities at Level 3 fair value	$ (1,472,090)	$ (310,665)	$	$	$	$ (1,782,755)

(a) The net transfers in and out of Level 3 during the year ended September 30, 2012 were exclusively to or from Level 2.

	Year Ended to September 30, 2011					
		Total Gains (Losses)				
	Balance at FGL Acquisition Date	Included in Earnings	Included in AOCI	Net Purchases, Sales & Settlements	Net Transfer In (Out) of Level 3 [(a)]	Balance at End of Period
Assets						
Fixed maturity securities, available-for-sale:						
Asset-backed securities	$ 399,967	$	$ 863	$ (11,709)	$ (14,603)	$ 374,518
Corporates	197,573	1,993	5,408	(45,229)	(61)	159,684
Hybrids	8,305		(61)		(3,039)	5,205
Agency residential mortgage-backed securities	3,271		41			3,312
Non-agency residential mortgage-backed securities	18,519	2,364	379	(17,503)		3,759
Total assets at Level 3 fair value	$ 627,635	$ 4,357	$ 6,630	$ (74,441)	$ (17,703)	$ 546,478
Liabilities						
FIA embedded derivatives, included in contractholder funds	$ (1,466,308)	$ 69,968	$	$	$	$ (1,396,340)
Available-for-sale embedded derivatives	(419)	19				(400)
Equity conversion feature of preferred stock		27,910		(103,260)		(75,350)
Total liabilities at Level 3 fair value	$ (1,466,727)	$ 97,897	$	$ (103,260)	$	$ (1,472,090)

(a) The net transfers in and out of Level 3 during the year ended September 30, 2011 were exclusively to or from Level 2.

FGL reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the beginning fair value for the reporting period in which the changes occur. There were no transfers between Level 1 and Level 2 for the years ended September 30, 2012 and 2011.

Primary market issuance and secondary market activity for certain asset-backed securities, corporates, municipals and residential mortgage-backed securities during Fiscal 2012, as well as asset-backed securities, corporates and hybrid securities during Fiscal 2011 increased the market observable inputs used to establish fair values for similar securities. These factors, along with more consistent pricing from third-party sources, resulted in FGL concluding that there is sufficient trading activity in similar instruments to support classifying these securities as Level 2 as of September 30, 2012 and 2011, respectively. Additionally, during the year a new third party began pricing FGL s collateral loan obligations (CLOs) holdings included in asset-backed securities. This new pricing vendor uses market observable inputs such as actual trade prices, yields, and other market assumptions as well as observable deal, tranche and collateral information in the pricing of CLOs and therefore supported a level 2 classification of these securities as of September 30, 2012. Accordingly, FGL s assessment resulted in a net transfer out of Level 3 of $794,012 related to asset-backed securities, corporates, hybrids, municipals, and residential mortgage-backed securities during the year ended September 30, 2012 and $17,703 related to asset-backed securities, corporates and hybrids during the year ended September 30, 2011. There were also net transfers in to Level 3 of $3,712 related to hybrid securities during the year ended September 30, 2012.

The following tables present the gross components of purchases, sales, and settlements, net, of Level 3 financial instruments for the years ended September 30, 2012 and 2011. There were no issuances during these periods.

	Year Ended September 30, 2012			
	Purchases	**Sales**	**Settlements**	**Net Purchases, Sales & Settlements**
Assets				
Fixed maturity, securities available-for-sale:				
Asset-backed securities	$ 410,707	$	$ (38,811)	$ 371,896
Commercial mortgage-backed securities	4,999			4,999
Corporates	1,326	(26,788)	(14,224)	(39,686)
Municipals	10,197		(20)	10,177
Non-agency residential mortgage-backed securities		(475)	(302)	(777)
Total assets at Level 3 fair value	$ 427,229	$ (27,263)	$ (53,357)	$ 346,609

	Year Ended September 30, 2011			
	Purchases	**Sales**	**Settlements**	**Net Purchases, Sales & Settlements**
Assets				
Fixed maturity, securities available-for-sale:				
Asset-backed securities	$ 2,007	$	$ (13,716)	$ (11,709)
Corporates	10,365	(48,898)	(6,696)	(45,229)
Non-agency residential mortgage-backed securities		(15,729)	(1,774)	(17,503)
Total assets at Level 3 fair value	$ 12,372	$ (64,627)	$ (22,186)	$ (74,441)
Liabilities				
Equity conversion option of preferred stock	$	$ (103,260)	$	$ (103,260)

(8) Inventories

Inventories, net consist of the following:

	September 30,	
	2012	**2011**
Raw materials	$ 58,515	$ 59,928
Work-in-process	23,434	25,465
Finished goods	370,684	349,237
	$452,633	$434,630

(9) Properties

Properties, net consist of the following:

	September 30,	
	2012	**2011**
Land, buildings and improvements	$ 88,580	$ 101,303

Machinery, equipment and other	247,626	202,844
Construction in progress	18,366	10,134
Total properties, at cost	354,572	314,281
Less accumulated depreciation	140,253	107,482
	$ 214,319	$ 206,799

(10) Goodwill and Intangibles

Consumer Products and Other

A summary of the changes in the carrying amounts of goodwill and intangible assets of the consumer products segment is as follows:

		Intangible Assets		
	Goodwill	Indefinite Lived	Amortizable	Total
Balance at September 30, 2010	$ 600,055	$ 857,478	$ 911,882	$ 1,769,360
Acquisitions (Note 22)	10,284	2,780	4,193	6,973
Intangible asset impairment		(32,450)		(32,450)
Amortization during period			(57,695)	(57,695)
Effect of translation	(1)	(1,013)	(1,266)	(2,279)
Balance at September 30, 2011	$ 610,338	$ 826,795	$ 857,114	$ 1,683,909
Acquisitions (Note 22)	85,875	22,000	82,118	104,118
Amortization during period			(63,666)	(63,666)
Reclassifications		(3,450)	3,450	
Effect of translation	(1,968)	(4,277)	(5,155)	(9,432)
Balance at September 30, 2012	$ 694,245	$ 841,068	$ 873,861	$ 1,714,929

Intangible assets subject to amortization include customer relationships, certain trade names and proprietary technology which are summarized as follows:

	September 30, 2012			September 30, 2011			
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net	Amortizable Life
Customer relationships	$ 796,235	$ 113,012	$ 683,223	$ 738,937	$ 73,373	$ 665,564	15-20 years
Trade names	150,829	28,347	122,482	149,700	16,320	133,380	1-12 years
Technology assets	90,924	22,768	68,156	71,805	13,635	58,170	4-17 years
	$ 1,037,988	$ 164,127	$ 873,861	$ 960,442	$ 103,328	$ 857,114	

Amortization expense related to intangible assets subject to amortization is as follows:

	Year Ended September 30,		
	2012	2011	2010
Customer relationships	$ 40,186	$ 38,320	$ 35,865
Trade names	14,347	12,558	3,750
Technology assets	9,133	6,817	6,305
	$ 63,666	$ 57,695	$ 45,920

Spectrum Brands estimates annual amortization expense for the next five fiscal years will approximate $63,600 per year.

Impairment Charges

In accordance with ASC 350, Spectrum Brands conducts impairment testing on its goodwill. To determine fair value during Fiscal 2012, 2011 and 2010, Spectrum Brands used the discounted estimated future cash flows methodology and third party valuations. Assumptions critical to

Spectrum Brands   fair value estimates under the discounted estimated future cash flows methodology are: (i) the present value factors used in determining the fair value of the reporting units and trade names; (ii) projected average revenue growth rates used in estimating future cash flows for the reporting unit; and (iii) projected long-term growth rates used in the derivation of terminal year values. These and other assumptions are impacted by economic conditions and expectations of management and will change in the future based on period specific facts and circumstances. Spectrum Brands also tested the aggregate estimated fair value of its reporting units for reasonableness by comparison to the total market capitalization of Spectrum Brands, which includes both its equity and debt securities. In addition, in accordance with ASC 350, as part of Spectrum Brands annual impairment testing, Spectrum Brands tested its indefinite-lived trade name intangible assets for impairment by comparing the carrying amount of such trade names to their respective fair values. Fair value was determined using a relief from royalty methodology. Assumptions critical to Spectrum Brands fair value estimates under the relief from royalty methodology were: (i) royalty rates; (ii) projected average revenue growth rates; and (iii) applicable discount rates.

A triggering event occurred in Fiscal 2011 which required Spectrum Brands to test its indefinite-lived intangible assets for impairment between annual impairment dates. The realignment of Spectrum Brands operating structure constituted a triggering event for impairment testing. Spectrum Brands compared the fair values of its reporting units to their carrying amounts both before and after the realignment and determined the fair values were in excess of the carrying amounts and, accordingly, no further testing of goodwill was required. In connection with the triggering event impairment testing, Spectrum Brands also tested the recoverability of its identified indefinite-lived intangibles and concluded that the fair values of those assets exceeded their carrying values.

In connection with Spectrum Brands annual goodwill impairment testing performed during Fiscal 2012, 2011 and 2010, the first step of such testing indicated that the fair value of Spectrum Brands reporting segments were in excess of their carrying amounts and, accordingly, no further testing of goodwill was required.

In connection with its annual impairment testing of indefinite-lived intangible assets during Fiscal 2012 and 2010, Spectrum Brands concluded that the fair values of its intangible assets exceeded their carrying values. Additionally, during Fiscal 2012 Spectrum Brands reclassified $3,450 of certain indefinite lived trade names to definite lived trade names. Those trade names are being amortized over the remaining useful lives, which have been estimated to be 1-3 years. During Fiscal 2011, Spectrum Brands concluded that the fair values of certain trade name intangible assets were less than the carrying amounts of those assets. As a result, during Fiscal 2011 the Company recorded non-cash pretax intangible asset impairment charges of $32,450 within Selling, general and administrative expenses which was equal to the excess of the carrying amounts of the intangible assets over the fair values of such assets.

The Fiscal 2011 impairments of trade name intangible assets were primarily attributed to lower current and forecasted profits, reflecting more conservative growth rates versus those originally assumed by Spectrum Brands at the time of acquisition or upon adoption of fresh start reporting.

Insurance and Financial Services

Information regarding VOBA and DAC (including DSI) is as follows:

	VOBA	DAC	Total
Balance at September 30, 2010	$	$	$
Acquisition of FGL on April 6, 2011	577,163		577,163
Deferrals		41,152	41,152
Less: Components of amortization			
Periodic amortization	294	(996)	(702)
Interest	14,040		14,040
Unlocking	(2,320)	97	(2,223)
Add: Adjustment for unrealized investment (gains), net	(170,117)	(2,146)	(172,263)
Balance at September 30, 2011	$ 419,060	$ 38,107	$ 457,167
Deferrals		194,900	194,900
Less: Components of amortization			
Periodic amortization	(171,833)	(20,239)	(192,072)
Interest	28,883	1,942	30,825
Unlocking	(2,487)	3,078	591
Add: Adjustment for unrealized investment (gains), net	(169,303)	(48,565)	(217,868)
Balance at September 30, 2012	$ 104,320	$ 169,223	$ 273,543

Amortization of VOBA and DAC is based on the amount of gross margins or profits recognized, including investment gains and losses. The adjustment for unrealized net investment gains represents the amount of VOBA and DAC that would have been amortized if such unrealized gains and losses had been recognized. This is referred to as the shadow adjustments as the additional amortization is reflected in other comprehensive income rather than the statements of operations. As of September 30, 2012 and 2011, the VOBA balance included cumulative adjustments for net unrealized investment gains of $(339,420) and $(170,117), respectively, and the DAC balances included cumulative adjustments for net unrealized investment gains of $(50,711) and $(2,146), respectively.

The above DAC balances include $9,068 and $5,048 of DSI, net of shadow adjustments, as of September 30, 2012 and 2011, respectively.

The weighted average amortization period for VOBA and DAC are approximately 5.5 and 6.3 years, respectively. Estimated amortization expense for VOBA and DAC in future fiscal years is as follows:

	Estimated Amortization Expense	
Fiscal Year	**VOBA**	**DAC**
2013	$ 49,851	$ 18,293
2014	57,552	23,090
2015	51,503	23,376
2016	47,148	22,315
2017	39,965	21,042
Thereafter	197,721	111,818

(11) Accrued and Other Liabilities

Accrued and other current liabilities consist of the following:

	September 30, 2012	September 30, 2011
Wages and benefits	$ 110,931	$ 72,945
Accrued interest	50,395	50,389
Income taxes payable	30,272	31,606
Accrued dividends on Preferred Stock	8,305	7,123
Restructuring and related charges	6,572	16,187
Other	130,433	139,379
	$ 336,908	$ 317,629

Insurance and Financial Services Other liabilities consist of the following:

	September 30, 2012	September 30, 2011
Amounts payable for investment purchases	$ 206,681	$ 13,353
Retained asset account	203,685	191,452
Income taxes payable	66,284	
Funds withheld from reinsurers	54,691	52,953
Amounts payable to reinsurers	31,959	13,884
Remittances and items not allocated	29,469	34,646
Accrued expenses	25,135	20,612
Derivatives futures contracts	928	3,828
Other	95,876	50,869
	$ 714,708	$ 381,597

(12) Debt

The Company s consolidated debt consists of the following:

	September 30, 2012 Amount	September 30, 2012 Rate	September 30, 2011 Amount	September 30, 2011 Rate
HGI:				
10.625% Senior Secured Notes, due November 15, 2015	$ 500,000	10.625%	$ 500,000	10.625%
Spectrum Brands:				
Term loan, due June 17, 2016	370,175	5.1%	525,237	5.1%
9.5% Senior Secured Notes, due June 15, 2018	950,000	9.5%	750,000	9.5%
6.75% Senior Notes, due March 15, 2020	300,000	6.75%		
12% Senior Subordinated Toggle Notes due 2019			245,031	12.0%
ABL Revolving Loan Facility, expiring May 3, 2016		4.3%		2.5%
Other notes and obligations	18,059	10.9%	19,333	10.5%
Capitalized lease obligations	26,683	6.2%	24,911	6.2%
	2,164,917		2,064,512	
Original issuance premiums (discounts) on debt, net	2,122		(15,732)	
Less current maturities	16,414		16,090	

Long-term debt	Consumer Products and Other	$ 2,150,625	$ 2,032,690
FGL:			
Note payable	Insurance and Financial Services	$	$ 95,000

Aggregate scheduled maturities of debt as of September 30, 2012 are as follows:

Fiscal Year	Scheduled Maturities
2013	$ 16,414
2014	13,164
2015	8,063
2016	861,222
2017	1,500
Thereafter	1,264,554
	$ 2,164,917

Aggregate capitalized lease obligations included in the amounts above are payable in installments of $3,097 in 2013, $3,153 in 2014, $2,513 in 2015, $1,866 in 2016, $1,500 in 2017 and $14,554 thereafter.

HGI

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

HGI 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, HGI 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, HGI may redeem up to 35% of the original aggregate principal amount of the 10.625% Notes with net cash proceeds received by HGI 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 customary 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 certain transactions with affiliates; or consolidate or merge with, or sell substantially all of its assets to, another person. HGI is also required to maintain compliance with certain financial tests, including minimum liquidity and collateral coverage ratios that are based on the fair market value of the assets held directly by HGI, including its equity interests in Spectrum Brands and its other subsidiaries such as HFG and HGI Funding. At September 30, 2012, the Company was in compliance with all covenants under the 10.625% Notes.

HGI incurred $16,200 of costs in connection with its issuance of the 10.625% Notes. These costs are classified as Deferred charges and other assets in the accompanying Consolidated Balance Sheets and, along with the OID, are being amortized to interest expense utilizing the effective interest method over the term of the 10.625% Notes.

Spectrum Brands

In connection with the SB/RH Merger, on June 16, 2010, Spectrum Brands (i) entered into a new senior secured term loan pursuant to a new senior credit agreement consisting of a $750,000 U.S. dollar term subsequently refinanced in February 2011 (the Term Loan), (ii) issued $750,000 in aggregate principal amount of 9.5% Senior Secured Notes due June 15, 2018 (the 9.5% Notes) and (iii) entered into a $300,000 U.S. Dollar asset based revolving loan facility (the ABL Facility). The proceeds from such financings 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.

The 9.5% Notes were issued by SBI. SB/RH Holdings, LLC, a wholly-owned subsidiary of Spectrum Brands, and the wholly-owned domestic subsidiaries of SBI are the guarantors under the 9.5% Notes. Spectrum Brands is not an issuer or guarantor of the 9.5% Notes. Spectrum Brands is also not a borrower or guarantor under the Term Loan or the ABL Facility. SBI 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. SBI and its wholly-owned domestic subsidiaries are the borrowers under the ABL Facility and SB/RH Holdings, LLC is a guarantor of that facility.

Term Loan

In February 2011, Spectrum Brands completed the refinancing of its term loan facility, which was initially established in connection with the SB/RH Merger and had an aggregate amount outstanding of $680,000 upon refinancing with an amended and restated credit agreement.

In connection with the refinancing, the Term Loan was issued at par with a maturity date of June 17, 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 interest at a rate per annum equal to, at Spectrum Brands option, the LIBO rate (adjusted for statutory reserves) subject to a 1% floor plus a margin equal to 4%, or an alternate base rate plus a margin equal to 3%.

In December 2011 and June 2012, Spectrum Brands amended its Term Loan. As a result, the aggregate incremental amount by which Spectrum Brands, subject to compliance with financial covenants and certain other conditions, may increase the amount of the commitment under the Term Loan has been increased from $100,000 to $250,000. Certain covenants in respect to indebtedness, liens and interest coverage were also amended to provide for dollar limits more favorable to Spectrum Brands and, subject to compliance with financial covenants and certain other conditions, to allow for the incurrence of incremental unsecured indebtedness.

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

9.5% Notes

In November 2011, Spectrum Brands issued $200,000 aggregate principal amount of 9.5% Notes at a price of 108.5% of the par value; these notes are in addition to the $750,000 aggregate principal amount of 9.5% Notes that were already outstanding and had been issued at a 1.37% discount.

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

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

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

6.75% Notes

In March 2012, Spectrum Brands issued $300,000 aggregate principal amount of its 6.75% Senior Notes due 2020 (the 6.75% Notes) at a price of 100% of the par value. The 6.75% Notes are unsecured and guaranteed by SBI s parent company, SB/RH Holdings, LLC, as well as by existing and future domestic restricted subsidiaries of SBI.

Spectrum Brands may redeem all or part of the 6.75% Notes, upon not less than 30 or more than 60 days notice, at specified redemption prices. Further, the indenture governing the 6.75% Notes (the 2020 Indenture) requires Spectrum Brands to make an offer, in cash, to repurchase all or a portion of the applicable outstanding notes for a specified redemption price, including a redemption premium, upon the occurrence of a change of control of Spectrum Brands, as defined in such indenture.

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

In addition, the 2020 Indenture provides for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments when due or on acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the 2020 Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 6.75% Notes. If any other event of default under the 2020 Indenture occurs and is continuing, the trustee for the 2020 Indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 6.75% Notes may declare the acceleration of the amounts due under those notes.

12% Notes

In March 2012, Spectrum Brands launched a cash tender offer (the Tender Offer) and consent solicitation (the Consent Solicitation) with respect to any and all of its outstanding 12% Senior Subordinated Toggle Notes due 2019 (the 12% Notes). Pursuant to the Consent Solicitation, Spectrum Brands received consents to the adoption of certain amendments to the indenture governing the 12% Notes to, among other things, eliminate substantially all of the restrictive covenants, certain events of default and other related provisions. The terms of the Tender Offer provided that holders of the 12% Notes who tendered their 12% Notes prior to the expiration of a consent solicitation period, which ended March 14, 2012, would receive tender offer consideration and a consent payment. Holders tendering their 12% Notes subsequent to expiration of the consent solicitation period, but prior to the March 28, 2012 expiration of the Tender Offer period, would receive only tender offer consideration. As of the expiration of the consent solicitation period, holders of the 12% Notes had tendered approximately $231,421 of the 12% Notes. Following the expiration of the Tender Offer period, an additional $88 of the 12% Notes were tendered. Following expiration of the Tender Offer period, Spectrum Brands paid the trustee principal, interest and a call premium sufficient to redeem the remaining approximately $13,522 of the 12% Notes not tendered on the first redemption date, August 28, 2012. The trustee under the indenture governing the 12% Notes accepted those funds in trust for the benefit of the holders of the 12% Notes and has acknowledged the satisfaction and discharge of the 12% Notes and the indenture governing the 12% Notes.

ABL Facility

In May 2012, Spectrum Brands amended its ABL Facility. As a result, the maturity date was extended from April 21, 2016 to May 3, 2016.

The amended facility carries an interest rate at the option of Spectrum Brands, which is subject to change based on availability under the facility, of either: (a) the base rate plus (currently) 0.75% per annum or (b) the reserve-adjusted LIBOR rate plus (currently) 1.75% per annum. No principal amortizations are required with respect to the ABL Facility. Pursuant to the credit and security agreement, the obligations under the ABL Facility are secured by certain current assets of Spectrum Brands, including, but not limited to, deposit accounts, trade receivables and inventory.

The ABL Facility is governed by a credit agreement (the ABL Credit Agreement) with Bank of America as administrative agent. The ABL 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 Facility are to be used for costs, expenses and fees in connection with the ABL, working capital requirements of Spectrum Brands and its subsidiaries, restructuring costs, and for other general corporate purposes.

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.

As a result of borrowings and payments under the ABL Facility, at September 30, 2012 Spectrum Brands had aggregate borrowing availability of approximately $198,209, net of lender reserves of $7,942 and outstanding letters of credit of $25,302.

Debt Related Costs

In connection with the 6.75% Note offering, the 9.5% Note offerings, the voluntary prepayments and amendments to the Term Loan and ABL Facility and, in Fiscal 2010, the debt refinancings in connection with the SB/RH Merger, Spectrum Brands recorded fees of $11,231, $12,616 and $55,024 during Fiscal 2012, 2011 and 2010, respectively. These fees are classified as Deferred charges and other assets in the accompanying Consolidated Balance Sheets and are being amortized to interest expense utilizing the effective interest method over the respective terms of the debt. In addition, Spectrum Brands recorded the following charges to Interest expense relating to the extinguishment, prepayment and amendment of its debt instruments, as described above:

	Year Ended September 30,		
	2012	2011	2010
Cash fees and expenses	$ 26,413	$ 5,654	$ 17,009
Non-cash charges for write-off and accelerated amortization of unamortized debt issuance costs and discount/premium	5,303	31,891	65,713
Total charges to interest expense	31,716	37,545	82,722

FGL

On April 7, 2011, Raven Reinsurance Company (Raven Re), a newly-formed wholly-owned subsidiary of FGL, issued a $95,000 surplus note to OMGUK, as discussed further in Note 20. The surplus note was issued at par and carried a 6% fixed interest rate. The note had a maturity date which was the later of (i) December 31, 2012 or (ii) the date on which all amounts due and payable to the lender have been paid in full. The note was settled at face value (without the payment of interest) in October 2011 in connection with the closing of the Raven springing amendment and the replacement of the reserve facility discussed in Note 20.

(13) Temporary Equity

On May 13, 2011 and August 5, 2011, the Company issued 280 shares of Series A Preferred Stock and 120 shares of Series A-2 Preferred Stock, respectively, in private placements pursuant to securities purchase agreements, for aggregate gross proceeds of $400,000. The Preferred Stock (i) is redeemable for cash (or, if a holder does not elect cash, automatically converted into common stock) on May 13, 2018, (ii) is convertible into the Company s common stock at an initial conversion price of $6.50 per share for the Series A and $7.00 per share for the Series A-2, both subject to anti-dilution adjustments, (iii) has a liquidation preference of the greater of 150% of the purchase price or the value that would be received if it were converted into common stock, (iv) accrues a cumulative quarterly cash dividend at an annualized rate of 8% and (v) has a quarterly non-cash principal accretion at an annualized rate of 4% that will be reduced to 2% or 0% if the Company achieves specified rates of growth measured by increases in its net asset value. Effective April 1, 2012, and October 1, 2012, such accretion rate was reduced from, respectively, 4% to 2% for the remainder of Fiscal 2012, and then from 2% to 0% for the period subsequent to Fiscal 2012, as a result of achieving a specified level of growth in the Company s net asset value as calculated in accordance with the terms of the certificates of designation governing the Preferred Stock. The Preferred Stock is entitled to vote, subject to certain regulatory limitations, and to receive cash dividends and in-kind distributions on an as-converted basis with the common stock.

If the Company were to issue certain equity securities at a price lower than the conversion price of the respective series of Preferred Stock, the conversion price would be adjusted downward to reflect the dilutive effect of the newly issued equity securities (a down round provision). Therefore, as discussed further in Note 2, the conversion feature required bifurcation and must be separately accounted for at fair value with any changes in fair value reported in current earnings.

As of the respective issuance dates, the Company determined the fair values of the bifurcated conversion feature were approximately $85,700 for the Series A Preferred Stock and approximately $17,560 for the Series A-2 Preferred Stock. The residual $296,740 aggregate value of the host contracts, less $14,027 of issuance costs, has been classified as temporary equity, as the securities are redeemable at the option of the holder and upon the occurrence of an event that is not solely within the control of the issuer. The resulting $117,287 difference between the issuance price and initial carrying value of $282,713 is being accreted to Preferred stock dividends and accretion in the accompanying Consolidated Statements of Operations using the effective interest method over the Preferred Stock s contractual/expected life of approximately seven years through May 13, 2018.

The carrying value of Preferred Stock reflects the following components:

	Series A (280 shares)	Series A-2 (120 shares)	Total
Initial issuance price in Fiscal 2011	$ 280,000	$ 120,000	$ 400,000
Principal accretion:			
Fiscal 2011	4,308	747	5,055
Fiscal 2012	8,622	3,662	12,284
Redemption value as of September 30, 2012	292,930	124,409	417,339
Bifurcation of embedded conversion feature at issuance	(85,700)	(17,560)	(103,260)
Issuance costs	(11,058)	(2,969)	(14,027)
Accretion:			
Fiscal 2011	4,210	459	4,669
Fiscal 2012	11,705	2,799	14,504
Carrying value of Preferred Stock as of September 30, 2012	$ 212,087	$ 107,138	$ 319,225

(14) Permanent Equity

Accumulated Other Comprehensive Income

Amounts recorded in AOCI in the accompanying Consolidated Statements of Permanent Equity and Comprehensive Income (Loss) consist of the following components:

	Unrealized Investment Gains, net	Non-credit Related Other-than-temporary Impairments	Other Unrealized Gains (Losses) Cash Flow Hedges	Actuarial Adjustments to Pension Plans	Cumulative Translation Adjustments	Total
Balances at September 30, 2009	$	$	$ 851	$ (190)	$ 5,907	$ 6,568
Gross change before reclassification adjustment			(15,621)	(29,141)	11,511	(33,251)
Net reclassification adjustment for losses (gains) included in earnings			6,356	1,355		7,711
Gross change after reclassification adjustment			(9,265)	(27,786)	11,511	(25,540)
Deferred tax effect			2,775	8,904	1,085	12,764
Deferred tax valuation allowance			(116)	(2,763)	481	(2,398)
Noncontrolling interest			1,276	8,084	(12,682)	(3,322)
Net adjustment to AOCI			(5,330)	(13,561)	395	(18,496)
Noncontrolling interest recapitalization adjustment			1,342	1,347	4,044	6,733
Balances at September 30, 2010	$	$	$ (3,137)	$ (12,404)	$ 10,346	$ (5,195)
Gross change before reclassification adjustment	420,929	500	(5,992)	(7,609)	(12,857)	394,971
Net reclassification adjustment for losses (gains) included in earnings	(3,861)		13,422	8		9,569
Gross change after reclassification adjustment	417,068	500	7,430	(7,601)	(12,857)	404,540
Intangible assets adjustment	(172,057)	(206)				(172,263)
Deferred tax effect	(85,709)	(103)	(2,671)	2,037	2,742	(83,704)
Deferred tax valuation allowance			(331)	3,529	(492)	2,706
Noncontrolling interest			(2,128)	373	5,436	3,681
Net adjustment to AOCI	159,302	191	2,300	(1,662)	(5,171)	154,960
Change in noncontrolling interest			132	278	(727)	(317)
Balances at September 30, 2011	$ 159,302	$ 191	$ (705)	$ (13,788)	$ 4,448	$ 149,448
Gross change before reclassification adjustment	906,473	(1,529)	(1,824)	(15,452)	(8,602)	879,066
Net reclassification adjustment for losses (gains) included in earnings	(263,948)		3,097	927		(259,924)
Gross change after reclassification adjustment	642,525	(1,529)	1,273	(14,525)	(8,602)	619,142
Intangible assets adjustment	(218,454)	586				(217,868)
Deferred tax effect	(148,469)	330	(636)	3,632		(145,143)
Deferred tax valuation allowance			908	(782)		126
Noncontrolling interest			(736)	5,074	4,182	8,520
Net adjustment to AOCI	275,602	(613)	809	(6,601)	(4,420)	264,777
Change in noncontrolling interest			21	(917)	(157)	(1,053)
Balances at September 30, 2012	$ 434,904	$ (422)	$ 125	$ (21,306)	$ (129)	$ 413,172
Cumulative components at September 30, 2012:						
Gross amounts (after reclassification adjustments)	$ 1,059,593	$ (1,029)	$ 305	$ (39,937)	$ (3,722)	$ 1,015,210
Intangible assets adjustments	(390,511)	380				(390,131)
Tax effects	(234,178)	227	(87)	4,392	3,497	(226,149)
Noncontrolling interest			(93)	14,239	96	14,242

	$ 434,904	$ (422)	$ 125	$ (21,306)	$ (129)	$ 413,172
Cumulative components at September 30, 2011:						
Gross amounts (after reclassification adjustments)	$ 417,068	$ 500	$ (968)	$ (25,412)	$ 4,880	$ 396,068
Intangible assets adjustments	(172,057)	(206)				(172,263)
Tax effects	(85,709)	(103)	(359)	1,542	3,497	(81,132)
Noncontrolling interest			622	10,082	(3,929)	6,775
	$ 159,302	$ 191	$ (705)	$ (13,788)	$ 4,448	$ 149,448

Restricted Net Assets of Subsidiaries

HGI s equity in restricted net assets of consolidated subsidiaries was approximately $1,709,008 as of September 30, 2012, representing 145% of HGI s consolidated stockholders equity as of September 30, 2012 and consisted of net assets of FGL and Spectrum Brands, less noncontrolling interest, which were restricted as to transfer to HGI in the form of cash dividends, loans or advances under regulatory or debt covenant restrictions.

(15) Employee Benefit Plans

Defined Benefit Plans

HGI

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

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

Spectrum Brands

Spectrum Brands has various defined benefit pension plans (the Spectrum Brands Pension Plans) covering some of its employees in the United States and certain employees in other countries, primarily the United Kingdom and Germany. The Spectrum Brands Pension Plans generally provide benefits of stated amounts for each year of service. Spectrum Brands funds its U.S. pension plans in accordance with the 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 Spectrum Brands funding policy, annual contributions to non-U.S. defined benefit plans are equal to the actuarial recommendations or statutory requirements in the respective countries.

Spectrum Brands also 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. Spectrum Brands also has various nonqualified deferred compensation agreements with certain of its employees. Under certain of these agreements, Spectrum Brands 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 Spectrum Brands will fund these agreements. Under the remaining agreements, Spectrum Brands 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.

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

Consolidated

The recognition and disclosure provisions of ASC Topic 715: *Compensation-Retirement Benefits* (ASC 715) requires recognition of the overfunded or underfunded status of defined benefit pension and postretirement plans as an asset or liability in the consolidated balance sheet, and to recognize changes in that funded status in AOCI.

In accordance with the measurement date provisions of ASC 715, the Company measures all of its defined benefit pension and postretirement plan assets and obligations as of September 30, which is the Company s fiscal year end.

The following tables provide additional information on the Company s pension and other postretirement benefit plans which principally relate to Spectrum Brands:

	Pension and Deferred Compensation Benefits		Other Benefits	
	2012	2011	2012	2011
Change in benefit obligation				
Benefit obligation, beginning of year	$ 228,662	$ 234,807	$ 542	$ 527
Service cost	2,048	2,543	12	11
Interest cost	11,436	11,239	27	27
Actuarial (gain) loss	31,251	(9,022)	(14)	(21)
Participant contributions	182	189		
Benefits paid	(10,890)	(10,189)	(1)	(2)
Foreign currency exchange rate changes	(1,969)	(905)		
Benefit obligation, end of year	$ 260,720	$ 228,662	$ 566	$ 542
Change in plan assets				
Fair value of plan assets, beginning of year	$ 143,668	$ 140,072	$	$
Actual return on plan assets	22,290	(501)		
Employer contributions	13,612	14,912	1	2
Employee contributions	182	189		
Benefits paid	(10,890)	(10,189)	(1)	(2)
Plan expenses paid		(226)		
Foreign currency exchange rate changes	(241)	(589)		
Fair value of plan assets, end of year	$ 168,621	$ 143,668	$	$
Accrued Benefit Cost / Funded Status	$ (92,099)	$ (84,994)	$ (566)	$ (542)
Range of assumptions:				
Discount rate	4.0%-13.5%	4.0%-13.6%	4.0%	5.0%
Expected return on plan assets	4.0%-7.8%	3.0%-7.8%	N/A	N/A
Rate of compensation increase	2.3%-5.5%	0.0%-5.5%	N/A	N/A

The net underfunded status as of September 30, 2012 and 2011 of $92,099 and $84,994, respectively, is recognized in the accompanying Consolidated Balance Sheets within Employee benefit obligations. Included in AOCI as of September 30, 2012 and 2011 are unrecognized net (losses) of $(21,306), net of tax benefit of $4,392 and noncontrolling interest of $14,239, and $(13,788), net of tax benefit of $1,542 and noncontrolling interest of $10,082, respectively, which have not yet been recognized as components of net periodic pension cost. The net loss in AOCI expected to be recognized during the year ending September 30, 2013 (Fiscal 2013) is $1,204.

At September 30, 2012, the Company s total pension and deferred compensation benefit obligation of $260,720 consisted of $95,494 associated with U.S. plans and $165,226 associated with international plans. The fair value of the Company s pension and deferred compensation benefit assets of $168,621 consisted of $66,415 associated with U.S. plans and $102,206 associated with international plans. The weighted average discount rate used for the Company s domestic plans was approximately 4.4% and approximately 5.3% for its international plans. The weighted average expected return on plan assets used for the Company s domestic plans was approximately 7.6% and approximately 5.4% for its international plans.

At September 30, 2011, the Company s total pension and deferred compensation benefit obligation of $228,662 consisted of $86,801 associated with U.S. plans and $141,861 associated with international plans. The fair value of the Company s pension and deferred compensation benefit assets of $143,668 consisted of $56,609 associated with U.S. plans and $87,059 associated with international plans. The weighted average discount rate used for the Company s domestic plans was approximately 5.0% and approximately 4.9% for its international plans. The weighted average expected return on plan assets used for the Company s domestic plans was approximately 7.6% and approximately 5.4% for its international plans.

	Pension and Deferred Compensation Benefits Year Ended September 30,			Other Benefits Year Ended September 30,		
	2012	**2011**	**2010**	**2012**	**2011**	**2010**
Components of net periodic benefit cost:						
Service cost	$ 2,403	$ 2,689	$ 2,479	$ 12	$ 11	$ 9
Interest cost	11,436	11,239	8,515	27	27	26
Expected return on assets	(9,112)	(8,835)	(6,063)			
Amortization of prior service cost	72		535			
Amortization of transition obligation			207			
Recognized net actuarial (gain) loss	855	8	613	(54)	(52)	(58)
Net periodic cost (benefit)	$ 5,654	$ 5,101	$ 6,286	$ (15)	$ (14)	$ (23)

The discount rate is used to calculate the projected benefit obligation. The discount rate used is based on the rate of return on government bonds as well as current market conditions of the respective countries where such plans are established.

Below is a summary allocation of all pension plan assets as of the measurement date.

	Weighted Average Allocation		
	Target	**Actual**	
	2012	**2012**	**2011**
Asset Category			
Equity securities	0-60%	50%	47%
Fixed income securities	0-40%	21%	21%
Other	0-100%	29%	32%
	100%	100%	100%

The weighted average expected long-term rate of return on total assets is 6.3%.

The Company has established formal investment policies for the assets associated with these plans. Policy objectives include maximizing long-term return at acceptable risk levels, diversifying among asset classes, if appropriate, and among investment managers, as well as establishing relevant risk parameters within each asset class. Specific asset class targets are based on the results of periodic asset liability studies. The investment policies permit variances from the targets within certain parameters. The weighted average expected long-term rate of return is based on a Fiscal 2012 review of such rates. The plan assets currently do not include holdings of common stock of HGI or its subsidiaries.

The Company s fixed income securities portfolio is invested primarily in commingled funds and managed for overall return expectations rather than matching duration against plan liabilities; therefore, debt maturities are not significant to the plan performance.

The Company s other portfolio consists of all pension assets, primarily insurance contracts, in the United Kingdom, Germany and the Netherlands.

The Company s expected future pension benefit payments for Fiscal 2013 through its fiscal year 2022 are as follows:

Fiscal Year	
2013	$ 11,196
2014	10,301
2015	10,604
2016	10,939
2017	11,202
2018 to 2022	62,711

The following table sets forth the fair value of the Company s pension plan assets:

	Fair Value Hierarchy (a)	**September 30, 2012**	**September 30, 2011**
U.S. defined benefit plan assets:			
Mutual funds equity	Level 1	$ 20,520	$ 16,516
Common collective trusts equity	Level 2	25,781	21,024
Common collective trusts fixed income	Level 2	19,507	18,402
Other	Level 2	607	667
Total U.S. defined benefit plan assets		66,415	56,609
International defined benefit plan assets:			
Common collective trusts equity	Level 2	38,507	29,532
Common collective trusts fixed income	Level 2	15,661	11,467
Insurance contracts general fund	Level 2	40,651	37,987
Other	Level 2	7,387	8,073
Total International defined benefit plan assets		102,206	87,059
Total defined benefit plan assets		$ 168,621	$ 143,668

(a) The fair value measurements of the Company s defined benefit plan assets are based on unadjusted quoted prices for identical assets and liabilities in active markets (Level 1) for mutual funds and observable market price inputs (Level 2) for common collective trusts and other investments. 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. The fair values of insurance contracts and other investments are also based on observable market price inputs (Level 2).

Defined Contribution Plans

Spectrum Brands 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. Spectrum Brands also sponsors defined contribution pension plans for employees of certain foreign subsidiaries. FGL sponsors a defined contribution plan in which eligible participants may defer a fixed amount or a percentage of their eligible compensation, subject to limitations, and FGL makes a discretionary matching contribution of up to 5% of eligible compensation. FGL has also established a nonqualified defined contribution plan for independent agents. FGL makes contributions to the plan based on both FGL s and the agent s performance. Contributions are discretionary and evaluated annually. HGI also sponsors a defined contribution plan for its corporate employees in which eligible participants may defer a fixed amount or a percentage of their eligible compensation, subject to limitations. HGI makes a discretionary matching contribution of up to 4% of eligible compensation. Aggregate contributions charged to operations for the defined contribution plans, including discretionary amounts, for Fiscal 2012, 2011 and 2010 were $2,795, $5,346 and $3,471, respectively.

(16) Stock Compensation

The Company recognized consolidated stock compensation expense as follows:

	Year Ended September 30, 2012	2011	2010
Stock compensation expense	$ 31,214	$ 30,505	$ 16,710
Related tax benefit	10,265	10,636	5,837
Noncontrolling interest	8,177	9,057	4,932
Net	$ 12,772	$ 10,812	$ 5,941

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

A summary of stock options outstanding as of September 30, 2011 and 2012, and related activity during Fiscal 2012, under HGI and FGL s respective incentive plans are as follows:

	HGI			FGL		
Stock Option Awards	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Stock options outstanding at September 30, 2011	143	$ 6.77	$ 2.54		$	$
Granted	2,275	4.95	1.76	207	38.20	3.90
Exercised	(8)	3.33	1.29			
Forfeited or expired	(125)	7.01	2.64	(6)	38.14	3.90
Stock options outstanding at September 30, 2012	2,285	4.96	1.77	201	38.20	3.90
Vested and exercisable at September 30, 2012	7	6.50	2.35			
Outstanding and expected to vest at September 30, 2012	2,285	4.96	1.77	161	38.20	3.90

A summary of restricted stock and restricted stock units outstanding as of September 30, 2011 and 2012, and related activity during Fiscal 2012, under HGI and Spectrum Brands respective incentive plans are as follows:

	HGI		Spectrum Brands	
Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Restricted stock outstanding at September 30, 2011		$	123	$ 24.20
Granted	838	4.93		
Vested	(9)	4.61	(110)	23.75
Forfeited				
Restricted stock outstanding at September 30, 2012	829	4.93	13	28.00
Outstanding and expected to vest at September 30, 2012	829	4.93	13	28.00

	HGI		Spectrum Brands	
Restricted Stock Units	**Units**	**Weighted Average Grant Date Fair Value**	**Units**	**Weighted Average Grant Date Fair Value**
Restricted stock units outstanding at September 30, 2011		$	1,645	$ 28.97
Granted	22	4.61	863	28.28
Vested	(5)	4.61	(520)	29.83
Forfeited			(57)	28.49
Restricted stock units outstanding at September 30, 2012	17	4.61	1,931	28.45
Vested and exercisable at September 30, 2012	5	4.61		
Outstanding and expected to vest at September 30, 2012	17	4.61	1,931	28.45

HGI

On December 5, 1996, HGI s stockholders approved a long-term incentive plan (the 1996 HGI Plan) that permitted the grant of options to purchase up to 8,000 shares of common stock to key employees of the Company. These awards were granted at prices equivalent to the market value of the common stock on the date of grant. These options vest ratably over three years beginning on the first anniversary and expire on the tenth anniversary of the grant. At September 30, 2012, stock options covering a total of 1,797 shares had been exercised and 10 options to purchase common stock are outstanding, with a weighted average exercise price of $6.50.

On September 15, 2011, the Company s stockholders approved the 2011 Omnibus Award Plan (the 2011 HGI Plan). The 2011 HGI Plan provides for the issuance of stock options or stock appreciation rights (SARs) for up to 17,000 shares of common stock. The 2011 HGI Plan prohibits granting stock options with exercise prices and SARs with grant prices lower than the fair market value of the common stock on the date of grant, except in connection with the issuance or assumption of awards in connection with certain mergers, consolidations, acquisitions of property or stock or reorganizations. Following the adoption of the 2011 HGI Plan, no new awards will be granted under the 1996 HGI Plan and any shares of common stock available for issuance under the 1996 HGI Plan that are not subject to outstanding awards are no longer available for issuance. As of September 30, 2012, 13,865 shares are available for issuance under the 2011 HGI Plan.

During Fiscal 2012, HGI granted approximately 2,275 stock option awards, 838 restricted stock awards and 22 restricted stock units. All of these grants are time based, and vest over periods of 7 months to 4 years. The total fair value of the stock grants on their respective grant dates was approximately $8,245.

During Fiscal 2010, prior to the June 16, 2010 inclusion of HGI s results herein, stock options for 10,000 and 125,000 shares were granted by HGI with grant date fair values of $2.35 and $2.63 per share, respectively, having a total fair value of $352 on their respective grant dates.

Under HGI s executive bonus plan, executives will be paid in cash, stock options and restricted stock shares. Based on Fiscal 2012 performance measures, the Company expects to grant approximately 3,200 restricted shares and 1,500 stock options in the first quarter of fiscal 2013 with a portion vesting immediately and the remaining shares vesting between 12 and 36 months from the grant date. The Company expects to recognize approximately $25,000 of deferred bonus compensation expense with respect to cash and stock-based awards as it vests over the next three fiscal years, subject to clawback provisions if the subsequent increase in net asset value for bonus compensation purposes does not exceed specified threshold returns.

As of September 30, 2012, there was approximately $6,435 of total unrecognized compensation cost related to unvested share-based compensation arrangements, which is expected to be recognized over a weighted average period of 2.7 years.

The weighted-average remaining contractual term of outstanding stock option awards was 9.4 years.

The following assumptions were used in Fiscal 2012 and 2010 in the determination of the grant date fair values of HGI s stock options using the Black-Scholes option pricing model:

	2012	2010
Risk-free interest rate	0.97% - 1.19%	2.60%
Assumed dividend yield		
Expected option term	6 years	6 years
Volatility	33.0% - 35.5%	32.0%

The fair values of restricted stock and restricted stock units are determined based on the market price of HGI s shares on the grant date.

Spectrum Brands

In September 2009, SBI s board of directors adopted the 2009 Spectrum Brands Inc. Incentive Plan (the 2009 Plan). In conjunction with the SB/RH Merger, the 2009 Plan was assumed by Spectrum Brands. Prior to October 21, 2010, up to 3,333 shares of common stock, net of forfeitures and cancellations, could have been issued under the 2009 Plan.

In conjunction with the SB/RH Merger, Spectrum Brands adopted 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). Prior to October 21, 2010, up to 600 shares of common stock, net of forfeitures and cancellations, could have been issued under the RH Plan.

On October 21, 2010, Spectrum Brands board of directors adopted the Spectrum Brands Holdings, Inc. 2011 Omnibus Equity Award Plan (the 2011 Plan), which was approved by Spectrum Brands stockholders on March 1, 2011. Up to 4,626 shares of common stock of Spectrum Brands, net of cancellations, may be issued under the 2011 Plan.

Spectrum Brands granted approximately 863 restricted stock units during Fiscal 2012. Of these grants, 160 restricted stock units are time-based and vest over a period ranging from one year to two years. The remaining 703 restricted stock units are both performance and time based and vest over a one year performance-based period followed by a one year time-based period. The total market value of the restricted shares on the date of the grant was approximately $24,408.

Spectrum Brands granted approximately 1,674 restricted stock units during Fiscal 2011. Of these grants, 93 restricted stock units are time-based and vest over a period ranging from one year to three years. The remaining 1,581 restricted stock units are both performance and time based and vest as follows: (i) 699 stock units vest over a one year performance-based period followed by a one year time-based period and (ii) 882 stock units vest over a two year performance-based period followed by a one year time-based period. The total market value of the restricted stock units on the date of the grant was approximately $48,530.

Spectrum Brands granted approximately 939 shares of restricted stock during Fiscal 2010. Of these grants, 271 restricted stock units were granted in conjunction with the SB/RH Merger and are time-based and vest over a one year period. The remaining 668 shares are restricted stock grants that are time based and vest as follows: (i) 18 shares vest over a one year period; (ii) 611 shares vest over a two year period; and (iii) 39 shares vest over a three year period. The total market value of the restricted shares on the date of the grant was approximately $23,299.

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

FGL

On November 2, 2011, FGL s compensation committee (on behalf of its board of directors) approved a long-term stock-based incentive plan that permits the grant of options to purchase shares of FGL common stock to key employees of FGL. On November 2, 2011, FGL s compensation committee also approved a dividend equivalent plan that permits holders of these options the right to receive a payment in cash in an amount equal to the ordinary dividends declared and paid or debt service payments to HGI by FGL in each calendar year, divided by the total number of FGL common shares outstanding, starting in the year in which the dividend equivalent is granted through the year immediately prior to the year in which the dividend equivalent vests with respect to a participant s option shares. As of September 30, 2012, FGL determined that it was probable that the dividend equivalent will vest and recorded a provision of $504 for the ratable recognition of such projected liability over the option vesting period.

During Fiscal 2012, FGL granted 207 stock option awards under the terms of the plan. These stock options vest over a period of 3 years and expire on the seventh anniversary of the grant. The total fair value of the grants on their grant dates was approximately $807.

The total compensation cost related to non-vested awards not yet recognized as of September 30, 2012 totaled $464 and will be recognized over a weighted average period of 2.1 years.

The following assumptions were used in the determination of the grant date fair values using the Black-Scholes option pricing model:

	2012
Risk-free interest rate	0.8%
Assumed dividend yield	10.0%
Expected option term	4.5 years
Volatility	35.0%

(17) Income Taxes

Income tax (benefit) expense was calculated based upon the following components of income (loss) from continuing operations before income tax:

		September 30,	
	2012	2011	2010
Pretax income (loss):			
United States	$ (146,542)	$ (74,815)	$ (238,179)
Outside the United States	171,928	132,749	105,867
Total pretax income (loss)	$ 25,386	$ 57,934	$ (132,312)

The components of income tax (benefit) expense were as follows:

	2012	September 30, 2011	2010
Current:			
Federal	$ 74,388	$ (875)	$
Foreign	38,113	32,649	44,481
State	(370)	2,336	2,913
Total current	112,131	34,110	47,394
Deferred:			
Federal	(199,162)	(20,622)	22,119
Foreign	5,190	28,054	(6,514)
State	(3,441)	9,013	196
Total deferred	(197,413)	16,445	15,801
Income tax (benefit) expense	$ (85,282)	$ 50,555	$ 63,195

The differences between income taxes expected at the U.S. Federal statutory income tax rate of 35% and reported income tax (benefit) expense are summarized as follows:

	2012	September 30, 2011	2010
Expected income tax (benefit) expense at Federal statutory rate	$ 8,885	$ 20,277	$ (46,309)
Valuation allowance for deferred tax assets	(142,126)	72,335	92,673
Preferred stock equity conversion feature	54,810	(9,486)	
Residual tax on foreign earnings	29,844	18,943	6,609
Foreign rate differential	(14,115)	(12,650)	(9,601)
Bargain purchase gain		(55,419)	
Gain on contingent purchase price reduction	(14,350)		
Permanent items	9,544	10,657	4,829
Exempt foreign income	(5,760)	(380)	(9)
Unrecognized tax benefits	(4,386)	(2,793)	3,234
State and local income taxes	(8,539)	1,235	(4,975)
Dividends received deduction	(965)		
Inflationary adjustments	(803)	(1,472)	3,409
Capitalized transaction costs	343	2,800	
Deferred tax correction of immaterial prior period error		4,873	5,900
Reorganization items			8,678
Other	2,336	1,635	(1,243)
Reported income tax (benefit) expense	$ (85,282)	$ 50,555	$ 63,195
Effective tax rate	(335.9)%	87.3%	(47.8)%

For the year ended September 30, 2012, the Company s effective tax rate of (335.9)%, representing a tax benefit despite pretax income, was positively impacted by the net release of valuation allowance attributed to the Company s determination that certain of its deferred tax assets are more likely than not realizable, income in foreign jurisdictions in which the Company operates that is subject to lower tax rates than the U.S. Federal statutory income tax rate and a contingent purchase price reduction. The Company s effective tax rate was negatively impacted by an expense for the increase in fair value of the equity conversion feature of Preferred Stock, for which no tax benefit is available, and deferred tax provision related to the change in book versus tax basis of indefinite lived intangibles, which are amortized for tax purposes, but not for book purposes. In addition, for Fiscal 2012 and forward, the Company has asserted that it is no longer permanently reinvesting the income from its foreign operations, thereby subjecting non-U.S. unremitted earnings to the U.S. Federal statutory income tax rate of 35%.

For the year ended September 30, 2011, the Company s effective tax rate of 87.3% was negatively impacted by the net establishment of valuation allowances against losses in the United States and some foreign jurisdictions. In addition, no tax benefits were recognized on the Company s indefinite lived intangibles, which are amortized for tax purposes, but not for book purposes. The Company s effective tax rate was positively impacted by the recognition of a bargain purchase gain from the FGL Acquisition, for which no income tax provision was required. In addition, permanently reinvested income in the foreign jurisdictions in which the Company operates is subject to lower tax rates than the U.S. Federal statutory income tax rate.

For the year ended September 30, 2010, the Company s effective tax rate of (47.8)%, representing a tax provision despite a pretax loss, was negatively impacted by (i) a deferred income tax provision related to the change in book versus tax basis of indefinite lived intangibles, which are amortized for tax purposes but not for book purposes, (ii) pretax losses in the United States and some foreign jurisdictions for which no tax benefit can be recognized due to full valuation allowances the Company provided on its net operating loss carryforward tax benefits and other deferred tax assets and (iii) pretax income in certain non-U.S. jurisdictions that was subject to tax.

The following table summarizes the components of deferred income tax assets and liabilities:

	September 30, 2012	September 30, 2011
Current deferred tax assets:		
Employee benefits	$ 29,491	$ 14,188
Restructuring	8,054	10,682
Inventories and receivables	22,495	21,521
Marketing and promotional accruals	8,270	8,911
Capitalized transaction costs	129	292
Unrealized losses on mark-to-market securities	10,213	9,574
Other	15,090	14,971
Valuation allowance	(48,968)	(37,523)
Total current deferred tax assets	44,774	42,616
Current deferred tax liabilities:		
Inventories and receivables	(2,618)	(5,015)
Unrealized gains	(1,153)	(2,382)
Other	(7,936)	(5,705)
Total current deferred tax liabilities	(11,707)	(13,102)
Net current deferred tax assets, included in Prepaid expenses and other current assets	$ 33,067	$ 29,514
Noncurrent deferred tax assets:		
Employee benefits	$ 37,488	$ 32,369
Restructuring and purchase accounting	371	2,269
Net operating loss, credit and capital loss carry forwards	914,480	1,026,610
Prepaid royalty	7,006	7,346
Properties	3,255	5,240
Capitalized transaction costs		4,648
Unrealized losses on mark-to-market securities	12,734	18,574
Long-term debt	3,976	22,602
Intangibles	4,282	4,749
Deferred acquisition costs	9,906	74,175
Insurance reserves and claim related adjustments	620,285	408,214
Other	30,850	28,556
Valuation allowance	(611,139)	(764,710)
Total noncurrent deferred tax assets	1,033,494	870,642
Noncurrent deferred tax liabilities:		
Properties	(15,337)	(16,593)
Unrealized gains	(15,803)	(11,619)
Intangibles	(596,199)	(571,454)
Value of business acquired	(36,512)	(148,876)
Tax on unremitted foreign earnings	(29,231)	
Investments	(438,655)	(246,632)
Other	(4,511)	(6,418)
Total noncurrent deferred tax liabilities	(1,136,248)	(1,001,592)
Net noncurrent deferred tax liabilities, included in Deferred tax assets (Insurance and Financial Services) and Deferred tax liabilities (Consumer Products and Other)	$ (102,754)	$ (130,950)

Net current and noncurrent deferred tax liabilities	$ (69,687)	$ (101,436)

In accordance with ASC Topic 740, the Company establishes valuation allowances for deferred tax assets that, in its judgment, are not more-likely-than-not realizable. These judgments are based on projections of future income, including tax-planning strategies, by individual tax jurisdiction. Changes in industry and economic conditions and the competitive environment may impact the accuracy of these projections. In accordance with ASC Topic 740, during each reporting period, the Company assesses the likelihood that its deferred tax assets will be realized and determines if adjustments to its valuation allowances are appropriate. As a result of this assessment, for the years ended September 30, 2012, 2011 and 2010, the Company had a net charge (release) of valuation allowance to earnings totaling $(142,126), $72,335 and $92,673, respectively, as more fully described below.

HGI

As a result of HGI s cumulative losses over the past three years, management concluded at September 30, 2012, that a valuation allowance was required for its entire net deferred tax asset balance. HGI s valuation allowance at September 30, 2012, totaled $97,799. This resulted from the Company s conclusion that tax benefits on its pretax losses are not more-likely-than-not realizable. HGI has approximately $121,867 of U.S. Federal net operating loss (NOL) carryforwards which, if unused, will expire in years 2029 through 2032. HGI has approximately $20,891 of U.S. capital loss carryforwards which, if unused, will expire in 2017. The Company also concluded that a valuation allowance was required for HGI s entire net deferred tax asset balance at September 30, 2011, in the amount of $53,034.

Spectrum Brands

At September 30, 2012, Spectrum Brands has U.S. Federal and state and local NOL carryforwards of $1,304,763 and $1,340,761, respectively. If unused, they will expire through 2032. Spectrum Brands has foreign loss carryforwards totaling $119,100 which will expire beginning in 2016. Certain of the foreign net operating losses have indefinite carryforward periods. Spectrum Brands is subject to an annual limitation on use of its NOL carryforwards that arose prior to its emergence from bankruptcy. Spectrum Brands has had multiple changes of ownership, as defined under the Internal Revenue Code (the IRC), Section 382, that subject the utilization of Spectrum Brands U.S. Federal and state and local NOL carryforwards and other tax attributes to certain limitations. Due to these limitations, Spectrum Brands estimates that $301,202 of its U.S. Federal NOL carryforwards and $385,159 of its state and local NOL carryforwards will expire unused even if it generates sufficient income to otherwise use all its NOLs. In addition, separate return year limitations apply to Spectrum Brands utilization of U.S. Federal and state and local NOL carryforwards acquired from Russell Hobbs. Spectrum Brands projects that $110,794 of its total foreign loss carryforwards will expire unused. Accordingly, the Company has provided a full valuation allowance against the deferred tax assets recorded for these losses.

As of September 30, 2012 and 2011, Spectrum Brands valuation allowances totaled approximately $384,800 and $373,893, respectively. These valuation allowances were recorded on: (i) U.S. net deferred tax assets totaling $349,316 and $338,539, respectively; and (ii) foreign net deferred tax assets totaling $35,484 and $35,354, respectively. The increase in Spectrum Brands valuation allowance during the year ended September 30, 2012 totaled $10,907, of which $10,777 relates to U.S. net deferred tax assets, and $130 relates to foreign net deferred tax assets. In addition, as a result of an acquisition, Spectrum Brands was able to release $14,511 of its U.S. valuation allowance during Fiscal 2012. The release was attributable to $14,511 of net deferred tax liabilities recorded on the acquiree s opening balance sheet that offset other U.S. net deferred tax assets. During the year ended September 30, 2011, Spectrum Brands concluded that its deferred tax assets recorded for Brazil NOL carryforwards are not more-likely-than not realizable. As a result, the Company recorded $25,877 of valuation allowance, increasing foreign deferred tax expense in Fiscal 2011.

Effective October 1, 2012, Spectrum Brands began recording residual U.S. and foreign taxes on current foreign earnings in accordance with its change in position under ASC 740. To the extent necessary, the Company intends to utilize earnings of foreign subsidiaries generated after September 30, 2011, to support management s plans to voluntarily accelerate its pay down of U.S. debt, fund distributions to shareholders, fund U.S. acquisitions and satisfy ongoing U.S. operational cash flow requirements. As a result, earnings of the Company s non-U.S. subsidiaries after September 30, 2011 are not considered to be permanently reinvested, except in jurisdictions where repatriation is either precluded or restricted by law. Accordingly, the Company is providing residual U.S. and foreign deferred taxes to these earnings to the extent they cannot be repatriated in a tax-free manner. As a result for the year ending September 30, 2012, Spectrum Brands recorded residual U.S. and foreign income and withholding taxes on approximately $97,638 of foreign earnings, causing an increase to income tax expense, net of a corresponding adjustment to Spectrum Brands domestic valuation allowance, of $3,278 (including $2,465 of expected tax on $76,475 of earnings not yet taxed in the U.S.). During Fiscal 2011, Spectrum Brands recorded residual U.S. and foreign taxes on approximately $39,391 of distributions of foreign earnings resulting in an increase of tax expense, net of a corresponding adjustment to Spectrum Brands domestic valuation allowance, of approximately $771. During Fiscal 2010, Spectrum Brands recorded residual U.S. and foreign taxes on approximately $26,600 of actual and deemed distributions of foreign earnings resulting in an increase in tax expense, net of a corresponding adjustment to Spectrum Brands domestic valuation allowance, of approximately $0. The Fiscal 2011 and Fiscal 2010 distributions were primarily non-cash deemed distributions under U.S. tax law.

Remaining undistributed earnings of Spectrum Brands foreign operations, which total approximately $415,713 at September 30, 2012, are intended to remain permanently invested. Accordingly, no residual income taxes have been provided on these earnings at September 30, 2012. If at some future date these earnings cease to be permanently invested, Spectrum Brands may be subject to U.S. income taxes and foreign withholding and other taxes on such amounts, which cannot be reasonably estimated at this time.

FGL

At September 30, 2012, FGL s deferred tax assets were primarily the result of U.S. NOL, capital loss and tax credit carryforwards and insurance reserves. Its net deferred tax asset position at September 30, 2012 and 2011, before consideration of its recorded valuation allowance, totaled $457,144 and $583,035, respectively. A valuation allowance of $177,508 and $375,306 was recorded against its gross deferred tax asset balance at September 30, 2012 and 2011, respectively. FGL s net deferred tax asset position at September 30, 2012 and 2011, after taking into account the valuation allowance, is $279,636 and $207,729, respectively. For the years ended September 30, 2012 and 2011, FGL recorded a net valuation allowance release of $197,798 (comprised of a full year valuation release of $204,736 related to the life insurance companies, partially offset by an increase to valuation allowance of $6,938 related to the non-life companies) and $30,064, respectively, based on management s reassessment of the amount of its deferred tax assets that are more-likely-than-not realizable.

At September 30, 2012, FGL s valuation allowance of $177,508 consisted of a partial valuation allowance of $145,854 on capital loss carryforwards and a full valuation allowance of $31,654 on non-life insurance net deferred taxes. At September 30, 2011, FGL s valuation allowance of $375,306 consisted of a partial valuation allowance of $138,257 on capital loss carryforwards, a full valuation allowance of $24,716 on non-life insurance net deferred taxes and a partial valuation allowance of $212,333 on other net deferred taxes, including NOLs.

As a consequence of FGL s acquisition, certain tax attributes (carry-forwards) became limited at the FGL Acquisition Date. In addition, FGL experienced cumulative losses during the three year period preceding its acquisition. These are among the factors the Company considered in establishing a valuation allowance against FGL s deferred tax asset position at the FGL Acquisition Date.

At each reporting date, FGL management considers new evidence, both positive and negative, that could impact management s view with regard to future realization of deferred tax assets. As of September 30, 2012, management considered the following positive and negative evidence concerning the future realization of FGL s deferred tax assets:

Positive Evidence:

- FGL has three years of cumulative US GAAP pre-tax income;
- FGL s internal projections of taxable income estimated in future periods reflect a continuation of this trend;
- FGL has projected that the reversal of taxable temporary timing differences will unwind in the twenty-year projection period;
- FGL has refined tax planning strategies to utilize capital loss carryforwards by selling assets with acquisition date built-in gains;
- FGL has a history of utilizing all significant tax attributes before they expire; and
- FGL s inventory of limited attributes has been significantly reduced as a result of a tax planning transaction that required amending certain tax returns.

Negative Evidence:

- Tax rules limit the ability to use carryforwards in future years;
- There is a brief carryback/carryforward period for life insurance company capital losses (i.e. 3-year carryback/ 5-year carryforward period.)

Based on its assessment of the evidence above, management determined that sufficient positive evidence exists as of September 30, 2012 to conclude that it is more likely than not that additional deferred taxes of FGL are more-likely-than-not realizable, and therefore, reduced the valuation allowance accordingly.

At September 30, 2012 and 2011, FGL has NOL carryforwards of $86,978 and $428,005, respectively, which, if unused, will expire in years 2026 through 2032. FGL has capital loss carryforwards totaling $551,897 and $717,267 at September 30, 2012 and 2011, respectively, which if unused, will expire in years 2013 through 2017. In addition, at September 30, 2012 and 2011, FGL has low income housing tax credit carryforwards totaling $52,780 and $68,099, respectively, which, if unused, will expire in years 2017 through 2032 and alternative minimum tax credits of $7,602 and $6,304, respectively, that may be carried forward indefinitely. Certain tax attributes are subject to an annual limitation as a result of the acquisition of FGL by the Company, which constitutes a change of ownership, as defined under IRC Section 382.

Uncertain Tax Positions

The total amount of unrecognized tax benefits (UTBs) at September 30, 2012 and 2011 are $5,877 and $9,013, respectively. If recognized in the future, the entire amount of UTBs would impact the effective tax rate. The Company records interest and penalties related to uncertain tax positions in income tax expense. At September 30, 2012 and 2011, the Company s accrued balances of interest and penalties on uncertain tax positions totaled $3,564 and $4,682, respectively. For Fiscal 2012, 2011 and 2010, interest and penalties (decreased) increased income tax expense by $(1,184), $(1,422) and $1,527, respectively. In connection with the SB/RH Merger, Spectrum Brands recorded reserves for additional UTBs of approximately $3,299 as part of purchase accounting.

At September 30, 2012, filed income tax returns for certain of the Company s legal entities in various jurisdictions are undergoing income tax audits. The Company cannot predict the ultimate outcome of these examinations. However, it is reasonably possible that during the next 12 months some portion of previously unrecognized tax benefits could be recognized.

The Company believes its income tax reserves for UTB s are adequate, consistent with the principles of ASC Topic 740. The Company regularly assesses the likelihood of additional tax assessments by jurisdiction and, if necessary, adjusts its tax reserves based on new information or developments.

The following table summarizes changes to the Company s UTB reserves, excluding related interest and penalties:

Unrecognized tax benefits at September 30, 2009	$ 7,765
Russell Hobbs acquired unrecognized tax benefits	3,251
HGI unrecognized tax benefits as of June 16, 2010	732
Gross decrease tax positions in prior period	(904)
Gross increase tax positions in current period	3,390
Lapse of statutes of limitations	(1,060)
Unrecognized tax benefits at September 30, 2010	$ 13,174
Gross increase tax positions in prior period	1,658
Gross decrease tax positions in prior period	(823)
Gross increase tax positions in current period	596
Settlements	(1,850)
Lapse of statutes of limitations	(3,742)
Unrecognized tax benefits at September 30, 2011	$ 9,013
Gross increase tax positions in prior period	773
Gross decrease tax positions in prior period	(1,308)
Gross increase tax positions in current period	776
Settlements	(1,737)
Lapse of statutes of limitations	(1,640)
Unrecognized tax benefits at September 30, 2012	$ 5,877

HGI files U.S. Federal consolidated and state and local combined and separate income tax returns. HGI s consolidated and combined returns do not include Spectrum Brands or FGL (life insurance group), each of which files their own consolidated Federal, and combined and separate state and local income tax returns. HGI s U.S. Federal income tax returns for years prior to and including 2010 are no longer subject to audit by the taxing authorities. With limited exception, HGI s state and local income tax returns are no longer subject to audit for years prior to 2008.

Spectrum Brands files U.S. Federal consolidated and state and local combined and separate income tax returns as well as foreign income tax returns in various jurisdictions. They are subject to ongoing examination by various taxing authorities. Spectrum Brand s major taxing jurisdictions are the United States, United Kingdom and Germany.

U.S. Federal income tax returns of Spectrum Brands and Russell Hobbs are no longer subject to audit for fiscal years prior to and including 2008. However, Federal NOL carryforwards from their fiscal years ended September 30, 2008 and June 30, 2008, respectively, will continue to be subject to Internal Revenue Service examination until the statute of limitations expires for the years in which these NOL carryforwards are ultimately utilized.

U.S. Federal income tax returns of FGL for years prior to 2008 are no longer subject to examination by the taxing authorities. With limited exception, FGL is no longer subject to state and local income tax audits for years prior to 2008. However, Federal NOL carryforwards from tax years ended June 30, 2006 and December 31, 2006, respectively, continue to be subject to Internal Revenue Service examination until the statute of limitations expires for the years in which these NOL carryforwards are ultimately utilized.

(18) Earnings Per Share

The Company follows the provisions of ASC Topic 260, *Earnings Per Share,* which requires companies with complex capital structures, such as having two (or more) classes of securities that participate in declared dividends to calculate earnings (loss) per share (EPS) utilizing the two-class method. As the holders of the

Preferred Stock are entitled to receive dividends with common stock on an as-converted basis, the Preferred Stock has the right to participate in undistributed earnings and must therefore be considered under the two-class method.

The following table sets forth the computation of basic and diluted EPS:

	2012	September 30, 2011	2010
Income (loss) attributable to common and participating preferred stockholders:			
Income (loss) from continuing operations	$ 29,915	$ 22,226	$ (149,134)
Loss from discontinued operations			(2,735)
Net income (loss)	$ 29,915	$ 22,226	$ (151,869)
Participating shares at end of period:			
Common stock outstanding	139,357	139,346	139,197
Preferred stock (as-converted basis)	62,839	60,989	
Total	202,196	200,335	139,197
Percentage of income (loss) allocated to:			
Common stock	68.9%	69.6%	100%
Preferred stock	31.1%	30.4%	
Income (loss) attributable to common shares basic:			
Income (loss) from continuing operations	$ 20,618	$ 15,460	$ (149,134)
Loss from discontinued operations			(2,735)
Net income (loss)	$ 20,618	$ 15,460	$ (151,869)
Dilutive adjustments to income (loss) attributable to common stock from assumed conversion of preferred stock, net of tax:			
Income allocated to preferred stock in basic calculation	$	$ 6,766	$
Reversal of preferred stock dividends and accretion		19,833	
Reversal of income related to fair value of preferred stock conversion feature		(27,910)	
Net adjustment	$	$ (1,311)	$
Income (loss) attributable to common shares diluted:			
Income (loss) from continuing operations	$ 20,618	$ 14,149	$ (149,134)
Loss from discontinued operations			(2,735)
Net income (loss)	$ 20,618	$ 14,149	$ (151,869)
Weighted-average common shares outstanding basic	139,356	139,233	132,399
Dilutive effect of preferred stock		19,064	
Dilutive effect of stock options	81	87	
Dilutive effect of restricted stock and restricted stock units	381		
Weighted-average shares outstanding diluted	139,818	158,384	132,399
Basic income (loss) per common share attributable to controlling interest:			
Continuing operations	$ 0.15	$ 0.11	$ (1.13)
Discontinued operations			(0.02)
Net income (loss)	$ 0.15	$ 0.11	$ (1.15)

Diluted income (loss) per common share attributable to controlling interest:						
Continuing operations	$	0.15	$	0.09	$	(1.13)
Discontinued operations						(0.02)
Net income (loss)	$	0.15	$	0.09	$	(1.15)

The number of shares of common stock outstanding used in calculating the weighted average thereof reflects: (i) for the period prior to the June 16, 2010 (the date of the SB/RH Merger), the number of shares of SBI common stock outstanding multiplied by the 1:1 Spectrum Brands share exchange ratio used in the SB/RH Merger and the 4.32 HGI share exchange ratio used in the Spectrum Brands Acquisition, (ii) for the period from June 16, 2010 to the January 7, 2011 (the date of the Spectrum Brands Acquisition), the number of HGI shares of common stock outstanding plus the 119,910 HGI shares of common stock subsequently issued in connection with the Spectrum Brands Acquisition and (iii) for the periods subsequent to and including January 7, 2011, the actual number of shares of HGI common stock outstanding, excluding unvested restricted stock.

At September 30, 2012, there were 62,839 shares issuable upon the conversion of the Preferred Stock that were excluded from the calculation of Diluted net income (loss) per common share attributable to controlling interest because the as-converted effect of the Preferred Stock would have been anti-dilutive for the year ended September 30, 2012. The Preferred Stock had a weighted average conversion price of $6.64.

(19) Commitments and Contingencies

The Company has aggregate reserves for its legal, environmental and regulatory matters of approximately $27,816 at September 30, 2012. These reserves relate primarily to the matters described below. However, based on currently available information, including legal defenses available to the Company, and given the aforementioned reserves and related insurance coverage, the Company does not believe that the outcome of these legal, environmental and regulatory matters will have a material effect on its financial position, results of operations or cash flows.

Legal and Environmental Matters

HGI

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

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

Spectrum Brands

Spectrum Brands has provided approximately $5,432 for the estimated costs associated with environmental remediation activities at some of its current and former manufacturing sites. Spectrum Brands believes that any additional liability which may result from resolution of these matters in excess of the amounts provided for will not have a material adverse effect on the financial position, results of operations or cash flows of Spectrum Brands.

Spectrum Brands is a defendant in various other matters of litigation generally arising out of the ordinary course of business.

FGL

FGL is involved in various pending or threatened legal proceedings, including purported class actions, arising in the ordinary course of business. In some instances, these proceedings include claims for unspecified or substantial punitive damages and similar types of relief in addition to amounts for alleged contractual liability or requests for equitable relief. In the opinion of FGL management and in light of existing insurance and other potential indemnification, reinsurance and established reserves, such litigation is not expected to have a material adverse effect on FGL s financial position, although it is possible that the results of operations and cash flows could be materially affected by an unfavorable outcome in any one annual period.

Regulatory Matters

FGL

FGL is assessed amounts by the state guaranty funds to cover losses to policyholders of insolvent or rehabilitated insurance companies. Those mandatory assessments may be partially recovered through a reduction in future premium taxes in certain states. At September 30, 2012, FGL has accrued $5,909 for guaranty fund assessments which is expected to be offset by estimated future premium tax deductions of $4,213.

FGL has received inquiries from a number of state regulatory authorities regarding its use of the U.S. Social Security Administration s Death Master File (Death Master File) and compliance with state claims practices regulation and unclaimed property and escheatment laws. To date, FGL has received inquiries from authorities in Maryland, Minnesota and New York. The New York Insurance Department issued a letter and subsequent regulation requiring life insurers doing business in New York to use the Death Master File or similar databases to determine if benefits were payable under life insurance policies, annuities, and retained asset accounts. Legislation requiring insurance companies to use the Death Master File to identify potential claims has recently been enacted in FGL s state of domicile (Maryland) and other states. As a result of these legislative and regulatory developments, in May 2012 FGL undertook an initiative to use the Death Master File and other publicly available databases to identify persons potentially entitled to benefits under life insurance policies, annuities and retained asset accounts. During Fiscal 2012, FGL incurred an $11,000 benefit expense, net of reinsurance, to increase reserves to cover potential benefits payable resulting from this ongoing effort. Based on its analysis to date and management s estimate, FGL believes its remaining accrual will cover the reasonably estimated liability arising out of these developments. Additional costs that cannot be reasonably estimated as of the date of this filing are possible as a result of ongoing regulatory developments and other future requirements related to this matter.

Guarantees

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

The First Amended and Restated Stock Purchase Agreement, dated February 17, 2011 (the F&G Stock Purchase Agreement) between HFG and OMGUK includes a Guarantee and Pledge Agreement which creates certain obligations for FGL as a grantor and also grants a security interest to OMGUK of FGL s equity interest in FGL Insurance in the event that HFG fails to perform in accordance with the terms of the F&G Stock Purchase Agreement. The Company is not aware of any events or transactions that resulted in non-compliance with the Guarantee and Pledge Agreement.

Shareholder Contingencies

The Master Fund has pledged all of its shares of the Company s common stock, together with securities of other issuers to secure a certain portfolio financing, which as of the date hereof, constitutes a majority of the outstanding shares of the Company s common stock. The sale or other disposition of a sufficient number of such shares (including any foreclosure on or sale of the Company s shares pledged as collateral) to non-affiliates could cause the Company and its subsidiaries to experience a change of control, which may accelerate certain of the Company s and its subsidiaries debt instruments and other obligations (including the 10.625% Notes and Preferred Stock) and/or allow certain counterparties to terminate their agreements. Any such sale or disposition may also cause the Company and its subsidiaries to be unable to utilize certain of their net operating loss and other tax carryforwards for income tax purposes.

Lease Commitments

The Company s minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease. Future minimum rental commitments under non-cancelable operating leases, principally pertaining to land, buildings and equipment, principally relating to Spectrum Brands, are as follows:

Fiscal Year	**Future Minimum Rental Commitments**
2013	$ 34,093
2014	29,156
2015	23,746
2016	23,023
2017	18,286
Thereafter	48,711
Total minimum lease payments	$ 177,015

All of the leases expire between October 2012 and January 2023. The Company s total rent expense was $36,925, $41,825 and $30,273 during Fiscal 2012, 2011 and 2010, respectively.

Unfunded Asset Based Lending Commitments

Through Salus, the Company enters into commitments to extend credit to meet the financing needs of its asset-based lending customers upon satisfaction of certain conditions. At September 30, 2012, the notional amount of unfunded, legally binding lending commitments was approximately $63,586, of which $14,744 expires in one year or less, and the remainder expires between one and three years.

(20) Reinsurance

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

The effect of reinsurance on premiums earned, benefits incurred and reserve changes for the year ended September 30, 2012 and 2011 were as follows:

	Year Ended September 30,			
	2012		2011	
	Net Premiums Earned	Net Benefits Incurred and Reserve Changes	Net Premiums Earned	Net Benefits Incurred and Reserve Changes
Direct	$ 297,964	$ 1,033,336	$ 157,772	$ 392,073
Assumed	47,179	34,940	22,858	19,571
Ceded	(289,846)	(290,904)	(141,628)	(164,012)
Net	$ 55,297	$ 777,372	$ 39,002	$ 247,632

Amounts payable or recoverable for reinsurance on paid and unpaid claims are not subject to periodic or maximum limits. During the years ended September 30, 2012 and 2011, FGL did not write off any reinsurance balances nor did it commute any ceded reinsurance.

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

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

FGL has the following significant reinsurance agreements as of September 30, 2012:

Reserve Facility

Pursuant to the F&G Stock Purchase Agreement, on April 7, 2011, FGL Insurance recaptured all of the life insurance business ceded to Old Mutual Reassurance (Ireland) Ltd. (OM Re), an affiliate of OMGUK. OM Re transferred assets with a fair value of $653,684 to FGL Insurance in settlement of all of OM Re s obligations under these reinsurance agreements. The fair value of the transferred assets, which was based on the economic reserves, was approved by the Maryland Insurance Administration. No gain or loss was recognized in connection with the recapture. The fair value of the assets acquired and liabilities assumed is reflected in the FGL purchase price allocation. See Note 22 for additional details.

On April 7, 2011, FGL Insurance ceded to Raven Re, on a coinsurance basis, a significant portion of the business recaptured from OM Re. Raven Re was capitalized by a $250 capital contribution from FGL Insurance and a surplus note (i.e., subordinated debt) issued to OMGUK in the principal amount of $95,000 (see Note 12 for the terms of such note). The proceeds from the surplus note issuance and the surplus note are reflected in the FGL purchase price allocation. Raven Re financed $535,000 of statutory reserves for this business with a letter of credit facility provided by Nomura and guaranteed by OMGUK and HFG.

On April 7, 2011, FGL Insurance entered into a reimbursement agreement with Nomura to establish a reserve facility and Nomura charged an upfront structuring fee (the Structuring Fee). The Structuring Fee was in the amount of $13,750 and is related to the retrocession of the life business recaptured from OM Re and related credit facility. The Structuring Fee was deferred and was fully amortized as of September 30, 2011 as a result of the termination of the reserve facility in connection with FGL Insurance accelerating the effective date of the amended and restated Raven Springing Amendment which is described in the Wilton Agreement discussion below.

Wilton Agreement

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

Insurance. On April 8, 2011, FGL Insurance ceded significantly all of the remaining life insurance business that it had retained to Wilton Re under the first of the two amendments with Wilton. FGL Insurance transferred assets with a fair value of $535,826, net of ceding commission, to Wilton Re. The Company considered the effects of the first amendment in the opening balance sheet and purchase price allocation as of FGL Acquisition Date. Effective April 26, 2011, HFG elected the second of the two amendments under the Commitment Agreement (the Raven Springing Amendment), which committed FGL Insurance to cede to Wilton Re all of the business (the Raven Block) then reinsured with Raven Re on or before December 31, 2012, subject to regulatory approval. The Raven Springing Amendment was intended to mitigate the risk associated with HFG s obligation under the F&G Stock Purchase Agreement, by replacing the Raven Re reserve facility by December 31, 2012. On September 9, 2011, FGL Insurance and Wilton Re executed an amended and restated Raven Springing Amendment whereby the recapture of the business ceded to Raven Re by FGL Insurance and the re-cession to Wilton Re closed on October 17, 2011 with an effective date of October 1, 2011. In connection with the closing, FGL Insurance transferred assets with a fair value of $580,683, including ceding commission, to Wilton Re.

In September 2012, Wilton Re and FGL Insurance reached a final agreement on the initial settlements associated with the reinsurance transactions FGL Insurance entered into subsequent to the FGL Acquisition. The final settlement amounts did not result in any material adjustments to the amounts reflected in the financial statements. FGL Insurance recognized a net pre-tax gain of $18,029 on these reinsurance transaction which has been deferred and is being amortized over the remaining life of the underlying reinsured contracts.

Commissioners Annuity Reserve Valuation Method Facility (CARVM)

Effective September 30, 2008, FGL Insurance entered into a yearly renewable term quota share reinsurance agreement with OM Re, an affiliated company of OMGUK, FGL s former parent, whereby OM Re assumed a portion of the risk that policyholders exercise the waiver of surrender charge features on certain deferred annuity policies. This agreement did not meet risk transfer requirements to qualify as reinsurance under US GAAP. Under the terms of the agreement, FGL expensed net fees of $4,004 and $1,809 for the years ended September 30, 2012 and 2011, respectively. Although this agreement did not provide reinsurance for reserves on a US GAAP basis, it did provide for reinsurance of reserves on a statutory basis. The statutory reserves were secured by a letter of credit with Old Mutual plc of London, England (OM), OMGUK s parent.

Effective October 1, 2012, FGL Insurance recaptured the CARVM reinsurance agreement from OM Re and simultaneously ceded the business to Raven Re. The recapture of the OM Re CARVM reinsurance agreement satisfies FGL s obligation under the F&G Stock Purchase Agreement to replace the letter of credit provided by OM no later than December 31, 2015. In connection with the new CARVM reinsurance agreement, FGL and Raven Re entered into an agreement with Nomura Bank International plc (Nomura) to establish a $295,000 reserve financing facility in the form of a letter of credit issued by Nomura and Nomura charged an upfront structuring fee in the amount of $2,800. The structuring fee was paid by FGL Insurance and will be deferred and amortized over the expected life of the facility.

(21) Insurance Subsidiary Financial Information

The Company s insurance subsidiaries file financial statements with state insurance regulatory authorities and the NAIC that are prepared in accordance with Statutory Accounting Principles (SAP) prescribed or permitted by such authorities, which may vary materially from US GAAP. Prescribed SAP includes the Accounting Practices and Procedures Manual of the NAIC as well as state laws, regulations and administrative rules. Permitted SAP encompasses all accounting practices not so prescribed. The principal differences between statutory financial statements and financial statements prepared in accordance with US GAAP are that statutory financial statements do not reflect VOBA and DAC, some bond portfolios may be carried at amortized cost, assets and liabilities are presented net of reinsurance, contractholder liabilities are generally valued using more conservative assumptions and certain assets are non-admitted. Accordingly, statutory operating results and statutory capital and surplus may differ substantially from amounts reported in the US GAAP basis financial statements for comparable items.

For example, in accordance with the US GAAP acquisition method of accounting, the amortized cost of FGL s invested assets was adjusted to fair value as of the FGL Acquisition Date while it was not adjusted for statutory reporting. Thus, the net unrealized gains on a statutory basis were $1,245,445 (unaudited) and $697,825 (unaudited) as of September 30, 2012 and 2011, respectively, compared to net unrealized gains of $1,058,447 and $418,210, respectively, on a US GAAP basis, as reported in Note 5.

The Company s insurance subsidiaries statutory financial statements are based on a December 31 year end. The total statutory capital and surplus of FGL Insurance was $861,588 (unaudited) and $801,945 (unaudited) as of September 30, 2012 and 2011, respectively, and $846,434 and $902,118 as of December 31, 2011 and 2010, respectively. The total adjusted statutory capital of FGL Insurance was $901,371 (unaudited) and $830,225 (unaudited) at September 30, 2012 and 2011, respectively. FGL Insurance had statutory net income of $88,437 (unaudited) and $22,094 (unaudited) for the nine months ended September 30, 2012 and 2011, respectively, and $110,264 and $245,849 for the years ended December 31, 2011 and 2010, respectively.

Life insurance companies are subject to certain Risk-Based Capital (RBC) requirements as specified by the NAIC. The RBC is used to evaluate the adequacy of capital and surplus maintained by an insurance company in relation to risks associated with: (i) asset risk, (ii) insurance risk, (iii) interest rate risk and (iv) business risk. FGL monitors the RBC of its insurance subsidiaries. As of September 30, 2012 and 2011, each of FGL s insurance subsidiaries had exceeded the minimum RBC requirements.

The Company s insurance subsidiaries are restricted by state laws and regulations as to the amount of dividends they may pay to their parent without regulatory approval in any year, the purpose of which is to protect affected insurance policyholders, depositors or investors. Any dividends in excess of limits are deemed extraordinary and require approval. Based on statutory results as of December 31, 2011, in accordance with applicable dividend restrictions, the Company s subsidiaries could pay ordinary dividends of $84,643 to FGL in 2012 less any dividends paid during the 12 month period from the last dividend payment. On September 26, 2012, FGL Insurance paid a dividend to FGL in the amount of $20,000 with respect to its 2011 results. On September 29, 2011 and December 22, 2011, FGL Insurance paid dividends to FGL in the amount of $20,000 and $20,000, respectively, with regard to its 2010 results. Based on its 2011 calendar year statutory results, FGL Insurance is able to declare an ordinary dividend up to $24,643 through September 29, 2012 (taking into account the dividend payments of $20,000 on September 29, 2011, December 22, 2011 and September 26, 2012), and $44,643 after September 29, 2012 through December 22, 2012 (taking into account the dividend payments of $20,000 on December 22, 2011 and $20,000 on September 26, 2012). In addition, between December 23 and December 31, 2012, FGL Insurance may be able to declare an additional ordinary dividend of $20,000 with respect to its 2011 statutory results (for an aggregate ordinary dividend of $64,643), subject to management s discretion.

(22) Acquisitions

FGL in Fiscal 2011

On April 6, 2011, the Company acquired all of the outstanding shares of capital stock of FGL and certain intercompany loan agreements between the seller, as lender, and FGL, as borrower, for cash consideration of $350,000, which amount could be reduced by up to $50,000 post closing (as discussed further below). The Company incurred approximately $22,700 of expenses related to the FGL Acquisition, including $5,000 of the $350,000 cash purchase price which has been re-characterized as an expense since the seller made a $5,000 expense reimbursement to the Master Fund upon closing of the FGL Acquisition. Such expenses are included in Selling, general and administrative expenses in the Consolidated Statement of Operations for the year ended September 30, 2011. The FGL Acquisition continued HGI s strategy of obtaining controlling equity stakes in subsidiaries that operate across a diversified set of industries.

Net Assets Acquired

The acquisition of FGL has been accounted for under the acquisition method of accounting which requires the total purchase price to be allocated to the assets acquired and liabilities assumed based on their estimated fair values. The fair values assigned to the assets acquired and liabilities assumed are based on valuations using management s best estimates and assumptions and were preliminary pending the completion of the valuation analysis of selected assets and liabilities. During the measurement period (which is not to exceed one year from the acquisition date), the Company is required to retrospectively adjust the provisional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets or liabilities as of that date. Effective April 1, 2012, the Company finalized such provisional amounts which were previously disclosed as of September 30, 2011.

The following table summarizes the provisional and final amounts recognized at fair value for each major class of assets acquired and liabilities assumed as of the FGL Acquisition Date:

	Provisional Amounts	Fiscal 2012 Measurement Period Adjustments	Final Amounts
Investments, cash and accrued investment income, including cash acquired of $1,040,470	$ 17,705,419	$	$ 17,705,419
Reinsurance recoverable	929,817	15,246	945,063
Intangible assets (VOBA)	577,163		577,163
Deferred tax assets	256,584	(3,912)	252,672
Other assets	72,801		72,801
Total assets acquired	19,541,784	11,334	19,553,118
Contractholder funds and future policy benefits	18,415,022		18,415,022
Liability for policy and contract claims	60,400		60,400
Note payable	95,000		95,000
Other liabilities	475,285	4,070	479,355
Total liabilities assumed	19,045,707	4,070	19,049,777
Net assets acquired	496,077	7,264	503,341
Cash consideration, net of $5,000 re-characterized as expense	345,000		345,000
Bargain purchase gain	$ 151,077	$ 7,264	$ 158,341

The application of acquisition accounting resulted in a bargain purchase gain of $158,341, which is reflected in the Consolidated Statement of Operations for the year ended September 30, 2011. The amount of the bargain purchase gain is equal to the amount by which the fair value of net assets acquired exceeded the consideration transferred. The Company believes that the resulting bargain purchase gain is reasonable based on the following circumstances: (a) the seller was highly motivated to sell FGL, as it had publicly announced its intention to do so approximately a year prior to the sale, (b) the fair value of FGL s investments and statutory capital increased between the date that the purchase price was initially negotiated and the FGL Acquisition Date, (c) as a further inducement to consummate the sale, the seller waived, among other requirements, any potential upward adjustment of the purchase price for an improvement in FGL s statutory capital between the date of the initially negotiated purchase price and the FGL Acquisition Date and (d) an independent appraisal of FGL s business indicated that its fair value was in excess of the purchase price.

Reinsurance Transactions

As discussed in Note 20, pursuant to the F&G Stock Purchase Agreement on April 7, 2011, FGL recaptured all of the life business ceded to OM Re. OM Re transferred assets with a fair value of $653,684 to FGL in settlement of all of OM Re s obligations under these reinsurance agreements. Such amounts are reflected in FGL s purchase

price allocation. Further, on April 7, 2011, FGL ceded on a coinsurance basis a significant portion of this business to Raven Re. Certain transactions related to Raven Re such as the surplus note issued to OMGUK in the principal amount of $95,000, which was used to partially capitalize Raven Re and the Structuring Fee of $13,750 are also reflected in FGL s purchase price allocation. Pursuant to the terms of the Raven Springing Amendment, the amount payable to Wilton at the closing of such amendment was adjusted to reflect the economic performance for the Raven Block from January 1, 2011 until the effective time of the closing of the Raven Springing Amendment. The estimated economic performance for the period from January 1, 2011 to April 6, 2011 was considered in the FGL s opening balance sheet and purchase price allocation. Of the ongoing settlement adjustments resolved with Wilton Re, as discussed in Note 20, it was determined that $11,176, less $3,912 of deferred income taxes, related to the pre-acquisition period, and were reflected as measurement period adjustments to the initial purchase price allocation. Such adjustments have been retrospectively reflected in the accompanying consolidated financial statements as of and for the year ended September 30, 2011.

Contingent Purchase Price Reduction

As contemplated by the terms of the F&G Stock Purchase Agreement, Front Street Re, Ltd. (Front Street), a Bermuda-based reinsurer and wholly-owned subsidiary of the Company, sought to enter into a reinsurance agreement (the Reinsurance Agreement) with the Company whereby Front Street would reinsure up to $3,000,000 of insurance obligations under annuity contracts of FGL, and Harbinger Capital Partners II LP (HCP II), an affiliate of the Principal Stockholders, would be appointed the investment manager of up to $1,000,000 of assets securing Front Street s reinsurance obligations under the Reinsurance Agreement. These assets would be deposited in a reinsurance trust account for the benefit of FGL.

The Reinsurance Agreement required the approval of the Maryland Insurance Administration (the MIA). The F&G Stock Purchase Agreement provides that the seller may be required to pay up to $50,000 as a post-closing reduction in purchase price if, among other things, the Reinsurance Agreement is not approved by the MIA or is approved subject to certain restrictions or conditions. FGL received written notice, dated January 10, 2012, from the MIA, rejecting the Reinsurance Agreement, as proposed by the respective parties. HGI is pursuing all available options to recover the full purchase price reduction, including the commencement of litigation against the seller; however, the outcome of any such action is subject to risk and uncertainty and there can be no assurance that any or all of the $50,000 purchase price reduction will be obtained by HGI.

Prior to the receipt of the written rejection notice from the MIA, management believed, based on the facts and circumstances at that time, that the likelihood was remote that the purchase price would be required to be reduced. Therefore a fair value of zero had been assigned to the contingent purchase price reduction as of the FGL Acquisition Date and at each subsequent quarterly remeasurement date through January 1, 2012. Management now believes that it is near certain that the purchase price will be required to be reduced by the full $50,000 amount and has estimated a fair value of $41,000 for the contingent receivable as of September 30, 2012, reflecting appropriate discounts for potential litigation and regulatory action, length of time until expected payment is received and a credit insurance risk premium. Such $41,000 estimated fair value of the contingent receivable has been reflected in Receivables, net in the Consolidated Balance Sheet as of September 30, 2012 with a corresponding credit to Gain on contingent purchase price reduction in the Consolidated Statement of Operations for the year ended September 30, 2012. Changes in the estimated fair value of the contingent consideration resulting from events after the acquisition date are accounted for in earnings upon each remeasurement date, until such time as the contingency is resolved.

Intangible Assets

VOBA represents the estimated fair value of the right to receive future net cash flows from in-force contracts in a life insurance company acquisition at the acquisition date. VOBA is being amortized over the expected life of the contracts in proportion to either gross premiums or gross profits, depending on the type of contract. Total gross profits include both actual experience as it arises and estimates of gross profits for future periods. FGL will regularly evaluate and adjust the VOBA balance with a corresponding charge or credit to earnings for the effects of actual gross profits and changes in assumptions regarding estimated future gross profits. The amortization of

VOBA is reported in Amortization of intangibles in the Consolidated Statements of Operations. The proportion of the VOBA balance attributable to each of the product groups associated with this acquisition as of the FGL Acquisition Date is as follows: 80.4% related to FIA s, and 19.6% related to deferred annuities.

Refer to Note 10 for FGL s historical and estimated future amortization of VOBA, net of interest.

Deferred Taxes

The future tax effects of temporary differences between financial reporting and tax bases of assets and liabilities are measured at the balance sheet date and are recorded as deferred income tax assets and liabilities. The acquisition of FGL is considered a non-taxable acquisition under tax accounting criteria, therefore, the tax basis of assets and liabilities reflect an historical (carryover) basis at the FGL Acquisition Date. However, since assets and liabilities reported under US GAAP are adjusted to fair value as of the FGL Acquisition Date, the deferred tax assets and liabilities are also adjusted to reflect the effects of those fair value adjustments. This resulted in shifting FGL into a significant net deferred tax asset position at the FGL Acquisition Date, principally due to the write-off of DAC and the establishment of a significantly lesser amount of VOBA which resulted in reducing the associated deferred tax liabilities and thereby shifting FGL s net deferred tax position. This shift, coupled with the application of certain tax limitation provisions that apply in the context of a change in ownership transaction, most notably Section 382 of the IRC, relating to Limitation in Net Operating Loss Carryforwards and Certain Built-in Losses Following Ownership Change, as well as other applicable provisions under Sections 381-384 of the IRC, require FGL to reconsider the realization of FGL s gross deferred tax asset position and the need to establish a valuation allowance against it. Management determined that a valuation allowance against a portion of the gross deferred tax asset (DTA) was required as of FGL Acquisition Date.

The components of the net deferred tax assets as of the FGL Acquisition Date (updated for measurement period adjustments) are as follows:

Deferred tax assets:	
DAC	$ 96,764
Insurance reserves and claim related adjustments	401,659
Net operating losses	128,437
Capital losses (carryovers and deferred)	267,468
Tax credits	75,253
Other deferred tax assets	24,066
Total deferred tax assets	993,647
Valuation allowance	(405,370)
Deferred tax assets, net of valuation allowance	588,277
Deferred tax liabilities:	
VOBA	202,007
Investments	121,160
Other deferred tax liabilities	12,438
Total deferred tax liabilities	335,605
Net deferred tax assets	$ 252,672

Fiscal 2011 Results of FGL since the FGL Acquisition Date

The following table presents selected financial information reflecting results for FGL that are included in the Consolidated Statement of Operations for the year ended September 30, 2011:

	For the period April 6, 2011 to September 30, 2011
Total revenues	$ 290,886
Income, net of taxes	$ 23,703

Russell Hobbs in Fiscal 2010

On June 16, 2010, SBI merged with Russell Hobbs. Russell Hobbs is a designer, marketer and distributor of a broad 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 accompanying Consolidated Statements of Operations for Fiscal 2010 and 2011.

In accordance with ASC Topic 805, Spectrum Brands accounted for the SB/RH Merger by applying the acquisition method of accounting. Inasmuch as Russell Hobbs was a private company and its common stock was not publicly traded, the closing market price of the SBI common stock at June 16, 2010 was used to calculate the purchase price. The total purchase price of Russell Hobbs was approximately $597,579 determined as follows:

SBI closing price per share on June 16, 2010	$ 28.15
Purchase price Russell Hobbs allocation 20,704 shares[(a)(b)]	575,203
Cash payment to pay off Russell Hobbs North American credit facility	22,376
Total purchase price of Russell Hobbs	$ 597,579

(a) Number of shares calculated based upon conversion formula, as defined in the merger agreement, using balances as of June 16, 2010.

(b) 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.

Supplemental Pro Forma Information   Unaudited

The following table reflects the Company s unaudited pro forma results for Fiscal 2011 and 2010 had the results of Russell Hobbs and FGL been included for each of the full year periods, as if the respective acquisitions were completed on October 1, 2009.

	Year Ended September 30, 2011 [(a)]	2010
Revenues:		
Reported revenues	$ 3,477,782	$ 2,567,011
FGL adjustment [(b)]	685,767	953,911
Russell Hobbs adjustment		543,952
Pro forma revenues	$ 4,163,549	$ 4,064,874
Income (loss) from continuing operations:		
Reported income (loss) from continuing operations	$ 7,379	$ (195,507)
FGL adjustment [(b)]	84,912	(206,441)
Russell Hobbs adjustment		(5,504)
Pro forma income (loss) from continuing operations	$ 92,291	$ (407,452)
Income (loss) per common share attributable to controlling interest:		
Reported basic income (loss) per common share from continuing operations	$ 0.11	$ (1.13)
FGL adjustment	0.42	(1.56)
Russell Hobbs adjustment		(0.04)
Pro forma basic income (loss) per common share from continuing operations	$ 0.53	$ (2.73)
Pro forma diluted income (loss) per common share from continuing operations	$ 0.51	$ (2.73)

(a) Reported revenues and net income for Fiscal 2011 include the actual reported results of FGL for the approximate six month period subsequent to April 6, 2011. Reported net income also includes the $158,341 non-recurring bargain purchase gain which was recorded as of the FGL Acquisition Date, and reflects the retrospective measurement period adjustments disclosed above.

(b) The pro forma information primarily reflects the following pro forma adjustments applied to FGL s historical results:

Reduction in net investment income to reflect amortization of the premium on fixed maturity securities available-for-sale resulting from the fair value adjustment of these assets;

Reversal of amortization associated with the elimination of FGL s historical DAC;

Amortization of VOBA associated with the establishment of VOBA arising from the acquisition;

Adjustments to reflect the 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, including the amortization of the related $13,750 Structuring Fee;

Adjustments to eliminate interest expense on notes payable to seller and add interest expense on the new $95,000 surplus note payable (which was subsequently settled in October 2011);

Adjustments to reflect the full-period effect of interest expense on the initial $350,000 of 10.625% Notes issued on November 15, 2010, the proceeds of which were used to fund the FGL Acquisition; and

Reversal of the change in the deferred tax valuation allowance included in the income tax provision.

Other Acquisitions

During the years ended September 30, 2012 and 2011, Spectrum Brands completed the following acquisitions which were not considered significant individually or collectively:

Black Flag

On October 31, 2011, Spectrum Brands completed the $43,750 cash acquisition of the Black Flag and TAT trade names (Black Flag) from The Homax Group, Inc., a portfolio company of Olympus Partners. The Black Flag and TAT product lines consist of liquids, aerosols, baits and traps that control ants, spiders, wasps, bedbugs, fleas, flies, roaches, yellow jackets and other insects. In accordance with ASC Topic 805, *Business Combinations* (ASC 805), Spectrum Brands accounted for the acquisition by applying the acquisition method of accounting.

The results of Black Flag s operations since October 31, 2011 are included in the accompanying Consolidated Statements of Operations. The purchase price of $43,750 has been allocated to the acquired net assets, including $25,000 of identifiable intangible assets, $15,852 of goodwill, $2,509 of inventories, and $389 of properties and other assets, based upon a preliminary valuation. Spectrum Brands estimates and assumptions for this acquisition are subject to change as Spectrum Brands obtains additional information for its estimates during the measurement period. The primary areas of the acquisition accounting that are not yet finalized relate to certain legal matters and residual goodwill.

FURminator

On December 22, 2011, Spectrum Brands completed the $141,745 cash acquisition of FURminator, Inc. (FURminator) from HKW Capital Partners III, L.P. FURminator is a leading worldwide provider of branded and patented pet deshedding products. In accordance with ASC 805, Spectrum Brands accounted for the acquisition by applying the acquisition method of accounting.

The results of FURminator operations since December 22, 2011 are included in the accompanying Consolidated Statements of Operations. The purchase price of $141,745 has been allocated to the acquired net assets, including $79,000 of identifiable intangible assets, $68,531 of goodwill, $9,240 of current assets, $648 of properties and $15,674 of current and long-term liabilities, based upon a preliminary valuation. Spectrum Brands estimates and assumptions for this acquisition are subject to change as Spectrum Brands obtains additional information for its estimates during the measurement period. The primary areas of the acquisition accounting that are not yet finalized relate to certain legal matters, income and non-income based taxes and residual goodwill.

Seed Resources

During Fiscal 2011, Spectrum Brands completed several business acquisitions which were not significant individually or collectively. The largest of these was the $10,524 cash acquisition of Seed Resources, LLC (Seed Resources) on December 3, 2010. Seed Resources is a wild seed cake producer through its Birdola premium brand seed cakes. The acquisition was accounted for under the acquisition method of accounting. The results of Seed Resources operations since December 3, 2010 are included in the accompanying Consolidated Statements of Operations. The purchase price of $12,500 (representing cash paid of $10,524 and contingent consideration accrued of $1,976) included $1,100 of trade name intangible assets and $10,029 of goodwill.

Acquisition and Integration Related Charges

Acquisition and integration related charges reflected in Selling, general and administrative expenses include, but are not limited to transaction costs such as banking, legal, accounting and other professional fees directly related to an acquisition or potential acquisition, termination and related costs for transitional and certain other employees, integration related professional fees and other post business combination related expenses.

The following table summarizes acquisition and integration related charges incurred by the Company:

	Year Ended September 30, 2012	2011	2010
SB/RH Merger			
Integration costs	$ 10,168	$ 23,084	$ 3,777
Employee termination charges	3,900	8,105	9,713
Legal and professional fees	1,495	4,883	24,962
	15,563	36,072	38,452
FGL		22,677	331
Spectrum Brands		1,129	4,284
FURminator	7,938		
BlackFlag	3,379		
Other	7,956	3,721	2,034
Total acquisition and integration related charges	$ 34,836	$ 63,599	$ 45,101

(23) Restructuring and Related Charges

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

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

In 2009, Spectrum Brands implemented a series of initiatives to reduce operating costs as well as evaluate Spectrum Brands opportunities to improve its capital structure (the Global Cost Reduction Initiatives). These initiatives included headcount reductions and the exit of certain facilities in the U.S. These initiatives also included consultation, legal and accounting fees related to the evaluation of Spectrum Brands capital structure.

The following table summarizes restructuring and related charges incurred by the Global Cost Reduction Initiatives, as well as other initiatives which were not significant in the periods presented below, and where those charges are classified in the accompanying Consolidated Statements of Operations:

Restructuring and Related Charges

Initiatives:	Year Ended September 30, 2012	2011	2010	Charges Since Inception	Expected Future Charges	Total Projected Costs	Expected Completion Date
Global Cost Reduction	$ 18,690	$ 25,484	$ 18,443	$ 83,018	$ 5,597	$ 88,615	January 31, 2015
Other	901	3,160	5,675				
	$ 19,591	$ 28,644	$ 24,118				
Classification:							
Cost of goods sold	$ 9,835	$ 7,841	$ 7,150				
Selling, general and administrative	9,756	20,803	16,968				

	$ 19,591	$ 28,644	$ 24,118

The following table summarizes restructuring and related charges incurred by type of charge and where those charges are classified in the accompanying Consolidated Statements of Operations:

	Year Ended September 30, 2012	2011	2010
Costs included in cost of goods sold:			
Global Cost Reduction Initiatives:			
Termination benefits	$ 2,941	$ 1,679	$ 2,630
Other associated costs	6,894	5,889	2,273
Other restructuring initiatives:			
Termination benefits			201
Other associated costs		273	2,046
Total included in cost of goods sold	9,835	7,841	7,150
Costs included in selling, general and administrative expenses:			
Global Cost Reduction Initiatives:			
Termination benefits	3,079	10,155	4,268
Other associated costs	5,776	7,761	9,272
Other restructuring initiatives:			
Termination benefits		956	5,269
Other associated costs	901	1,931	(1,841)
Total included in selling, general and administrative expenses	9,756	20,803	16,968
Total restructuring and related charges	$ 19,591	$ 28,644	$ 24,118

The following table summarizes the remaining accrual balance associated with the initiatives and the activity during Fiscal 2012:

Remaining Accrual Balance

Initiatives	Accrual Balance at September 30, 2011	Provisions	Cash Expenditures	Non-Cash Items	Accrual Balance at September 30, 2012	Expensed as Incurred (a)
Global Cost Reduction Initiatives:						
Termination benefits	$ 8,795	$ 2,095	$ (7,765)	$ 127	$ 3,252	$ 3,926
Other costs	3,021	(169)	(1,353)	(404)	1,095	12,838
	11,816	1,926	(9,118)	(277)	4,347	16,764
Other initiatives	4,371	(63)	(2,094)	11	2,225	964
	$ 16,187	$ 1,863	$ (11,212)	$ (266)	$ 6,572	$ 17,728

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

(24) Reorganization Items

Reorganization items expense represents expenses and losses that SBI identified as directly relating to its voluntary petitions under Chapter 11 of the U.S. Bankruptcy Code in 2009 and consists of the following:

		Year Ended September 30, 2010
Legal and professional fees	$	3,536
Provision for rejected leases		110
Administrative related reorganization items	$	3,646

The Company did not recognize any reorganization items in Fiscal 2012 and 2011.

(25) Discontinued Operations

On November 11, 2008, SBI s board of directors approved the shutdown of its line of growing products, which included the manufacturing and marketing of fertilizers, enriched soils, mulch and grass seed. The decision to shut down the growing products line was made only after SBI was unable to successfully sell this business, in whole or in part. The shutdown of its line of growing products was completed during the second quarter of Fiscal 2009.

The presentation herein of the results of continuing operations excludes its line of growing products for all periods presented. The following amounts have been segregated from continuing operations and are reflected as discontinued operations:

	Year Ended September 30, 2010	
Net sales	$	
Loss from discontinued operations before income taxes	$	(2,512)
Income tax expense		223
Loss from discontinued operations, net of tax	$	(2,735)

The Company did not record any income (loss) from discontinued operations in Fiscal 2012 and 2011.

(26) Related Party Transactions

During Fiscal 2012, Harbinger Capital Partners LLC (Harbinger Capital), an affiliate of the Company and the Principal Stockholders, provided the Company with certain advisory and consulting services and office space for certain of the Company s employees and officers. The Company reimbursed Harbinger Capital for its out-of-pocket expenses and the cost of advisory and consulting services and office space provided to the Company by Harbinger Capital. In addition, on January 9, 2012, the Company hired certain former personnel of Harbinger Capital effective as of October 1, 2011. The Company reimbursed Harbinger Capital for employment and other costs associated with the above employees to the extent their services related to the Company from October 1, 2011 to the January 9, 2012. The Company has recognized $2,030 and $1,500 of expenses under these arrangements with respect to the years ended September 30, 2012 and 2011, respectively. Such amounts have been approved by a special committee of the Company s board of directors, comprised solely of independent directors under the NYSE rules, which was advised by independent counsel. The Company believes that the amount of expenses recognized is reasonable; however, it does not necessarily represent the costs that would have been incurred by the Company on a stand-alone basis. There were no similar expenses recognized in the year ended September 30, 2010.

Subsequent to September 30, 2012, the Company and Harbinger Capital entered into a reciprocal services agreement (the Services Agreement) with respect to the provision of services to each other going forward. Pursuant to the Services Agreement, the parties each agreed to provide or cause to be provided services to each other, including their respective affiliates and subsidiaries. The services may include providing office space and operational support and each party making available their respective employees to provide services as reasonably requested by the other party, subject to any limitations contained in applicable employment agreements and the terms of the Services Agreement. Each party will pay the other party a service fee for the services provided and such service fee is intended to be the actual cost of the service without profit but including, as applicable, one-time costs, out-of pocket costs, costs of consents, fully loaded hourly rates and any pass through or allocation of payments. The Services Agreement provides that the parties are subject to confidentiality obligations and that the parties will indemnify each other and their related parties against certain costs and liabilities arising out of the performance of the Services Agreement. The Services Agreement will continue in effect until terminated by either party, following thirty (30) days advance written notice. A special committee of the Company s board of directors, comprised of independent directors under the rules of the New York Stock Exchange, advised by independent counsel, determined that it is in the best interests of the Company and its stockholders (other than Harbinger Capital and its affiliates) for the Company to enter into the Services Agreement and recommended to the Company s board directors that they approve entry into the Services Agreement. Following such determination, the Company s board of directors approved the Services Agreement.

On March 7, 2011, the Company entered into an agreement (the Transfer Agreement) with the Master Fund whereby on March 9, 2011, (i) the Company acquired from the Master Fund a 100% membership interest in HFG, which was the buyer under the F&G Stock Purchase Agreement, between HFG and OMGUK, pursuant to which HFG agreed to acquire all of the outstanding shares of capital stock of FGL and certain intercompany loan agreements between OM Group, as lender, and FGL, as borrower, and (ii) the Master Fund transferred to HFG 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 HFG and FS Holdco, the Company agreed to reimburse the Master Fund for certain expenses incurred by the Master Fund in connection with the Insurance Transaction (up to a maximum of $13,300) and to submit certain expenses of the Master Fund for reimbursement by OM Group under the F&G Stock Purchase Agreement. The Transfer Agreement and the transactions contemplated thereby, including the F&G Stock Purchase Agreement, was approved by the Company s Board of Directors upon a determination by a special committee (the FGL Special Committee) comprised solely of directors who were independent under the rules of the NYSE and represented by independent counsel and other advisors, that it was in the best interests of the Company and its stockholders (other than the Master Fund and its affiliates) to enter into the Transfer Agreement and proceed with the Insurance Transaction. On April 6, 2011, the Company completed the FGL Acquisition.

FS Holdco is a holding company, which is the indirect parent company of Front Street. Neither HFG nor FS Holdco has engaged in any significant business other than transactions contemplated in connection with the Insurance Transaction.

On May 19, 2011, the FGL Special Committee unanimously determined that it is (i) in the best interests of the Company and its stockholders (other than Harbinger Capital and its affiliates) for Front Street and FGL, to enter into the Reinsurance Agreement, pursuant to which Front Street would reinsure up to $3,000,000 of insurance obligations under annuity contracts of FGL and (ii) in the best interests of the Company for Front Street and HCP II to enter into an investment management agreement (the Investment Management Agreement), pursuant to which HCP II would be appointed as the investment manager of up to $1,000,000 of assets securing Front Street s reinsurance obligations under the Reinsurance Agreement, which assets would be deposited in a reinsurance trust account for the benefit of FGL pursuant to a trust agreement (the Trust Agreement). On May 19, 2011, the Company s board of directors approved the Reinsurance Agreement, the Investment Management Agreement, the Trust Agreement and the transactions contemplated thereby. The FGL Special Committee s consideration of the Reinsurance Agreement, the Trust Agreement, and the Investment Management Agreement was contemplated by the terms of the Transfer Agreement. In considering the foregoing matters, the FGL Special Committee was advised by independent counsel and received an independent third-party fairness opinion. As discussed further in Note 22, the Reinsurance Agreement required approval of the MIA, which ultimately was not received.

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

On July 14, 2011, the Master Fund and Spectrum Brands entered into an equity underwriting agreement with Credit Suisse Securities (USA) LLC, as representative of the underwriters listed therein, with respect to the offering of 1,000 shares of Spectrum Brands common stock by Spectrum Brands and 5,495 shares of Spectrum Brands common stock by the Master Fund, at a price per share to the public of $28.00. HGI did not sell any shares of Spectrum Brands common stock in the offering. In connection with the offering, HGI entered into a 180-day lock up agreement. In addition, the Master Fund entered into a standstill agreement with HGI, pursuant to which the Master Fund agreed that it would not, among other things (a) either individually or as part of a group, acquire, offer to acquire, or agree to acquire any securities (or beneficial ownership thereof) of Spectrum Brands; (b) other than with respect to certain existing holdings, form, join or in any way participate in a group with respect to any securities of Spectrum Brands; (c) effect, seek, offer, propose or cause or participate in (i) any merger, consolidation, share exchange or business combination involving Spectrum Brands or any material portion of Spectrum Brands business, (ii) any purchase or sale of all or any substantial part of the assets of Spectrum Brands or any material portion of the Spectrum Brands business; (iii) any recapitalization, reorganization or other extraordinary transaction with respect to Spectrum Brands or any material portion of the Spectrum Brands business, or (iv) any representation on the board of directors of Spectrum Brands.

On September 10, 2010, the Company entered into the Exchange Agreement with the Principal Stockholders, whereby the Principal Stockholders agreed to contribute a majority interest in Spectrum Brands to the Company in the Spectrum Brands Acquisition in exchange for 4.32 shares of the Company s common stock for each share of Spectrum Brands 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 Spectrum Brands 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 the Company received the Principal Stockholders proposal for the Spectrum Brands Acquisition.

On September 10, 2010, a special committee of the Company s board of directors advised by independent counsel and other advisors (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 Harbinger Capital), 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 Harbinger Capital), 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 Principal Stockholders, 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.

On January 7, 2011, the Company completed the Spectrum Brands Acquisition pursuant to the Exchange Agreement entered into on September 10, 2010 with the Principal Stockholders. In connection therewith, the Company issued an aggregate of 119,910 shares of its common stock in exchange for an aggregate of 27,757 shares of common stock of Spectrum Brands (the Spectrum Brands Contributed Shares), or approximately 54.5% of the then outstanding Spectrum Brands common stock.

Upon the consummation of the Spectrum Brands Acquisition, the Company became a party to a registration rights agreement, by and among the Principal Stockholders, Spectrum Brands and the other parties listed therein, pursuant to which the Company obtained certain demand and piggy back registration rights with respect to the shares of Spectrum Brands common stock held by the Company.

Following the consummation of the Spectrum Brands Acquisition, the Company also became a party to a stockholders agreement, by and among the Principal Stockholders and Spectrum Brands (the SB Stockholder Agreement). Under the SB Stockholder Agreement, the parties thereto have agreed to certain governance arrangements, transfer restrictions and certain other limitations with respect to Going Private Transactions (as such term is defined in the SB Stockholder Agreement).

The issuance of shares of the Company s common stock to the Principal Stockholders pursuant to the Exchange Agreement and the acquisition by the Company of the Spectrum Brands Contributed Shares were not registered under the Securities Act. These shares are restricted securities under the Securities Act. The Company may not be able to sell the Spectrum Brands Contributed Shares and the Principal Stockholders 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.

(27) Segment and Geographic Data

Segment information for the periods presented is as follows:

	Year Ended September 30, 2012	2011	2010
Revenues:			
Consumer products	$ 3,252,435	$ 3,186,916	$ 2,567,011
Insurance	1,221,724	290,866	
Other financial services	8,694		
Intersegment elimination	(2,137)		
Consolidated revenues	$ 4,480,716	$ 3,477,782	$ 2,567,011
Depreciation and amortization:			
Consumer products	$ 133,780	$ 135,149	$ 117,418
Insurance	163,665	(9,430)	
Other financial services	55		
Total segments	297,500	125,719	117,418
Corporate depreciation and amortization	2,020	207	53
Consolidated depreciation and amortization	$ 299,520	$ 125,926	$ 117,471
Operating income (loss):			
Consumer products	$ 301,746	$ 227,944	$ 168,778
Insurance	163,783	(18,041)	
Other financial services	2,645		
Intersegment elimination	(2,137)		
Total segments	466,037	209,903	168,778
Corporate expenses [(a)]	(56,546)	(46,217)	(8,324)
Consolidated operating income	409,491	163,686	160,454
Interest expense	(251,032)	(249,260)	(277,015)
(Increase) decrease in fair value of equity conversion feature of preferred stock	(156,600)	27,910	
Bargain purchase gain from business acquisition		158,341	
Gain on contingent purchase price reduction	41,000		
Other expense, net	(17,473)	(42,743)	(12,105)
Reorganization items expense			(3,646)
Consolidated income (loss) from continuing operations before income taxes	$ 25,386	$ 57,934	$ (132,312)
Capital expenditures:			
Consumer products	$ 46,809	$ 36,160	$ 40,316
Insurance	6,209	1,745	
Other financial services	474		
Total segments	53,492	37,905	40,316
Corporate capital expenditures	26	345	58
Consolidated capital expenditures	$ 53,518	$ 38,250	$ 40,374

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	September 30, 2012	September 30, 2011
Total assets:		
Consumer products	$ 3,751,649	$ 3,626,706
Insurance	20,905,830	19,347,961
Other financial services	195,057	
Intersegment elimination	(182,069)	
Total segments	24,670,467	22,974,667
Corporate assets	530,024	616,221
Consolidated total assets	$ 25,200,491	$ 23,590,888

	September 30, 2012	September 30, 2011
Total long-lived assets [(b)]:		
Consumer products	$ 2,690,222	$ 2,578,418
Insurance	280,434	460,694
Other financial services	449	
Total segments	2,971,105	3,039,112
Corporate long-lived assets	15,412	19,952
Consolidated long-lived assets	$ 2,986,517	$ 3,059,064

(a) Included in corporate expenses are $3,770, $26,996 and $6,649 related to business acquisitions and other projects and $3,282, $4,359 and $212 related to Front Street for Fiscal 2012, 2011 and 2010, respectively.

(b) Total long-lived assets include all non-current assets of the Consumer Products and Other section of the Consolidated Balance Sheet and properties (included in Other assets) and intangibles of the Insurance and Financial Services section.

The Company s geographic data disclosures are as follows:

Net sales to external customers:

	Year Ended September 30, 2012	2011	2010
United States	$ 1,772,138	$ 1,780,127	$ 1,444,779
Outside the United States	1,480,297	1,406,789	1,122,232
Consolidated net sales to external customers	$ 3,252,435	$ 3,186,916	$ 2,567,011

Long-lived assets:

	September 30, 2012	September 30, 2011
United States	$ 2,284,927	$ 2,324,515
Outside the United States	701,590	734,549
Consolidated long-lived assets	$ 2,986,517	$ 3,059,064

Venezuela Hyperinflation

Spectrum Brands does business in Venezuela through a Venezuelan subsidiary. At January 4, 2010, the beginning of the second quarter of Fiscal 2010, Spectrum Brands determined that Venezuela met the definition of a highly inflationary economy under US GAAP. As a result, beginning January 4, 2010, the U.S. dollar is the functional currency for Spectrum Brands Venezuelan subsidiary. Accordingly, subsequent to January 4, 2010, currency remeasurement adjustments for this subsidiary s financial statements and other transactional foreign exchange gains and losses are reflected in earnings. Through January 3, 2010, prior to being designated as highly inflationary, translation adjustments related to the Venezuelan subsidiary were reflected as a component of AOCI.

In addition, on January 8, 2010, the Venezuelan government announced its intention to devalue its currency, the Bolivar fuerte, relative to the U.S. dollar. As a result, Spectrum Brands remeasured the local balance sheet of its Venezuela entity during the second quarter of Fiscal 2010 to reflect the impact of the devaluation to the official exchange rate of 4.3 Bolivian fuerte per U.S. dollar. Based on actual exchange activity as of September 30, 2010, Spectrum Brands determined that the most likely method of exchanging its Bolivar fuertes for U.S. dollars would be to formally apply with the Venezuelan government to exchange through commercial banks at the Transaction System for Foreign Currency Denominated Securities (SITME) rate specified by the Central Bank of Venezuela. The SITME rate as of September 30, 2010 was quoted at 5.3 Bolivar fuerte per U.S. dollar. Therefore, Spectrum Brands changed the rate used to remeasure Bolivar fuerte denominated transactions as of September 30, 2010 from the official exchange rate to the 5.3 SITME rate in accordance with ASC Topic 830, *Foreign Currency Matters,* (ASC 830) as it was the expected rate that exchanges of Bolivar fuerte to U.S. dollars would be settled.

The designation of the Spectrum Brands Venezuela entity as a highly inflationary economy and the devaluation of the Bolivar fuerte resulted in a $1,486 reduction to the Company s operating income during Fiscal 2010. The Company also reported a foreign exchange loss in Other expense, net of $10,102 during Fiscal 2010.

As of September 30, 2011, Spectrum Brands is no longer exchanging its Bolivar Fuertes for U.S. dollars through the SITME mechanism and the SITME is no longer the most likely method of exchanging its Bolivar fuertes for U.S. dollars. Therefore, Spectrum Brands changed the rate used to remeasure Bolivar fuerte denominated transactions as of September 30, 2011 from the 5.3 SITME rate to the 4.3 official exchange rate in accordance with ASC 830 as it is the expected rate that exchanges of Bolivar fuerte to U.S. dollars will be settled. Spectrum Brands reported a foreign exchange gain in Other expense, net of $1,293 during Fiscal 2011 related to the change to the official exchange rate.

(28) Quarterly Results (Unaudited)

	Quarter Ended			
	September 30, 2012	**July 1, 2012**	**April 1, 2012**	**January 1, 2012**
Net sales	$ 832,576	$ 824,803	$ 746,285	$ 848,771
Total revenues	1,196,853	1,012,160	1,105,654	1,166,049
Gross profit	279,925	291,696	260,031	284,026
Operating income (loss)	120,364	81,403	95,893	111,831
Net income (loss) attributable to common and participating preferred stockholders	159,091	(149,080)	(3,855)	23,759
Net income (loss) per common share attributable to controlling interest:				
Basic	0.79	(1.07)	(0.02)	0.12
Diluted	0.78	(1.07)	(0.02)	0.06

	Quarter Ended			
	September 30, 2011	July 3, 2011	April 3, 2011	January 2, 2011
Net sales	$ 827,330	$ 804,635	$ 693,885	$ 861,066
Total revenues	888,541	1,034,290	693,885	861,066
Gross profit	280,496	293,694	255,439	299,238
Operating income (loss)	(43,953)	120,516	22,429	64,694
Net income (loss) attributable to common and participating preferred stockholders	(107,095)	211,341 [(a)]	(61,950)	(20,070)
Net income (loss) per common share attributable to controlling interest:				
Basic	(0.77)	1.16 [(a)]	(0.45)	(0.14)
Diluted	(0.77)	1.16 [(a)]	(0.45)	(0.14)

(a) The previously reported amounts of $204,077, or $1.12 per common share, have been retrospectively adjusted for a $7,264 increase in the bargain purchase gain from the FGL Acquisition resulting from adjustments made to finalize the purchase price allocation during the second quarter of Fiscal 2012 (see Note 22).

(29) Subsequent Events

ASC Topic 855, Subsequent Events (ASC 855), establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 requires the Company to evaluate events that occur after the balance sheet date through the date the Company s financial statements are issued and to determine whether adjustments to or additional disclosures in the financial statements are necessary. The Company has evaluated subsequent events through the date these financial statements were issued. The following are the significant events which occurred subsequent to September 30, 2012 but before these financial statements were issued:

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

On October 8, 2012, Spectrum Brands entered into an agreement (the HHI Acquisition Agreement) with Stanley Black & Decker, Inc. (Stanley Black and Decker) to acquire the hardware and home improvement business (the HHI Business) currently operated by Stanley Black & Decker and certain of its subsidiaries for $1,400,000, consisting of (i) the equity interests of certain subsidiaries of Stanley Black & Decker engaged in the business and (ii) certain assets of Stanley Black & Decker used or held for use in connection with the business. The acquisition, when completed, includes (i) the purchase of shares and assets of certain subsidiaries of Stanley Black & Decker involved in the HHI Business and (ii) the purchase of certain assets of Tong Lung Metal Industry Co. Ltd., a Taiwan Corporation, which is involved in the production of residential locksets.

The HHI Acquisition Agreement contains certain termination rights for each of Stanley Black & Decker and Spectrum Brands that, upon termination of the HHI Acquisition Agreement under specified circumstances, could require Spectrum Brands to pay Stanley Black & Decker a termination fee of up to $78,000.

Spectrum Brands will account for the acquisition in accordance with ASC 805 which requires, among other things, that the assets acquired and liabilities assumed in a business combination be measured at their fair values as of the closing date of the acquisition.

Debt Commitments

On November 16, 2012, Spectrum Brands issued at par $520,000 aggregate principal amount of 6.375% Senior Notes due 2020 (the 2020 Notes) and $570,000 aggregate principal amount of 6.625% Senior Notes due 2022 (the 2022 Notes and together with the 2020 Notes, the Notes). Spectrum Brands will assume and unconditionally guarantee, together with certain of its subsidiaries, the obligations under the Notes and intends to use the proceeds of the Notes to fund a portion of the Hardware Acquisition purchase price and related fees and expenses.

Additionally, Spectrum Brands has obtained debt financing commitments for approximately $1,840,000, inclusive of the Notes, to fund the Hardware Acquisition and refinance a portion of Spectrum Brands indebtedness outstanding as of September 30, 2012.

Spectrum Brands Shaser Acquisition

On November 8, 2012, Spectrum Brands completed a $50,000 cash acquisition of an approximately 56% interest in Shaser Biosciences, Inc. (Shaser), together with terms relating to a potential buyout of the remaining minority interest in Shaser. Spectrum Brands will account for the acquisition in accordance with ASC 805. Spectrum Brands is in the process of completing the preliminary purchase accounting.

HGI Joint Venture with EXCO Resources

On November 5, 2012, the Company announced a joint venture with EXCO Resources Inc. (EXCO) to create a private oil and gas limited partnership (the Partnership) that will purchase and operate EXCO s producing U.S. conventional oil and gas assets, for a total consideration of $725,000.

Under the terms of the agreement, the Partnership will acquire oil and gas assets from EXCO for approximately $725,000 of total consideration, subject to customary closing adjustments. The purchase by the Partnership will be funded with approximately $225,000 of bank debt, $372,500 million in cash contributed from HGI and $127,500 in oil and gas properties and related assets being contributed by EXCO. In exchange for its cash investment, HGI will receive a 75% limited partner interest in the Partnership and a 50% member interest in the general partner of the Partnership (the General Partner). The General Partner will own a 2% interest in the Partnership, thus giving HGI directly and indirectly a net 74.5% total equity interest in the Partnership. In exchange for its asset contribution, EXCO will receive approximately $597,500 million in cash proceeds as well as a 25% limited partner interest in the Partnership and a 50% member interest in the General Partner, for a net 25.5% total equity interest in the Partnership. EXCO will provide services to the partnership with the operation of the partnership s assets. The Partnership has been structured with incentive distribution rights to the General Partner intended to give EXCO upside and incentives to maintain efficient operations and grow cash flows for the benefit of all partners of the Partnership. In addition, HGI and EXCO will each own a 50% member interest in the General Partner and each will appoint two members of the General Partner s board of directors.

The transaction, which has been approved by the Boards of Directors of Harbinger Group Inc. and EXCO Resources, Inc., is subject to customary closing conditions, including title and environmental reviews, receipt of applicable approvals and consents and receipt of bank debt at the Partnership in accordance with the terms of the purchase agreement. The transaction is expected to close in early 2013.

SCHEDULE I

HARBINGER GROUP INC. AND SUBSIDIARIES

Summary of Investments Other than Investments in Related Parties

September 30, 2012

(In thousands)

	Amortized Cost (a)	Fair Value	Amount at which shown in the balance sheet
Fixed maturities:			
Bonds:			
United States Government and government agencies and authorities	$ 1,435,556	$ 1,466,488	$ 1,466,488
States, municipalities and political subdivisions	1,083,774	1,224,554	1,224,554
Foreign governments	672	815	815
Public utilities	2,166,720	2,400,804	2,400,804
Convertibles and bonds with warrants attached			
All other corporate bonds	10,354,332	10,996,252	10,996,252
Redeemable preferred stock			
Total fixed maturities	15,041,054	16,088,913	16,088,913
Equity securities:			
Common stocks:			
Public utilities			
Banks, trust, and insurance companies	67,452	68,692	68,692
Industrial, miscellaneous and all other			
Nonredeemable preferred stock	170,047	179,395	179,395
Total equity securities	237,499	248,087	248,087
Derivative investments	142,123	200,667	200,667
Asset-backed loans	180,054	180,054	180,054
Policy loans	11,758	11,758	11,758
Other long-term investments	7,056	7,056	7,056
Total investments	$ 15,619,544	$ 16,736,535	$ 16,736,535

(a) Represents (i) original cost reduced by repayments and other-than-temporary impairments and adjusted for amortization of premiums and accrual of discounts for fixed maturity securities, (ii) original cost reduced by other-than-temporary impairments for equity securities, (iii) original cost for derivative investments, and (iv) unpaid principal balance reduced by an allowance for credit losses for asset-backed loans.

See accompanying Report of Independent Registered Public Accounting Firm.

SCHEDULE II

Condensed Financial Information of the Registrant

HARBINGER GROUP INC. (Registrant Only)

BALANCE SHEETS

(In thousands)

	September 30, 2012	September 30, 2011
ASSETS		
Cash and cash equivalents	$ 235,783	$ 134,790
Short-term investments	33,986	74,889
Prepaid expenses and other current assets	6,433	1,678
Total current assets	276,202	211,357
Investments in consolidated subsidiaries	2,001,800	1,517,241
Advances to consolidated subsidiaries	9,434	58,773
Properties, net	302	410
Deferred charges and other assets	11,571	14,543
Total assets	$ 2,299,309	$ 1,802,324
LIABILITIES AND EQUITY		
Accounts payable	$ 734	$ 366
Accrued and other current liabilities	61,701	33,844
Total current liabilities	62,435	34,210
Long-term debt	497,739	497,168
Equity conversion feature of preferred stock	231,950	75,350
Employee benefit obligations	5,119	6,055
Deferred income taxes	4,925	1,343
Other liabilities	319	320
Total liabilities	802,487	614,446
Temporary equity:		
Redeemable preferred stock	319,225	292,437
Stockholders equity:		
Common stock	1,402	1,393
Additional paid-in capital	861,191	872,683
Accumulated deficit	(98,168)	(128,083)
Accumulated other comprehensive income	413,172	149,448
Total stockholders equity	1,177,597	895,441
Total liabilities and equity	$ 2,299,309	$ 1,802,324

See accompanying Report of Independent Registered Public Accounting Firm.

SCHEDULE II

(continued)

HARBINGER GROUP INC. (Registrant Only)

STATEMENTS OF OPERATIONS

(In thousands)

	Year Ended September 30, 2012	2011	Period from June 16, 2010 (a) through September 30, 2010
Revenues	$	$	$
Cost of revenues			
Gross profit			
Operating expenses:			
General and administrative	48,377	13,883	1,438
Acquisition related charges	3,729	8,696	6,649
Total operating expenses	52,106	22,579	8,087
Operating loss	(52,106)	(22,579)	(8,087)
Other income (expense):			
Equity in net income (losses) of subsidiaries	354,628	75,014	(55,772)
Interest expense	(56,565)	(39,005)	
(Increase) decrease in fair value of equity conversion feature of preferred stock	(156,600)	27,910	
Other, net	190	723	195
Income (loss) before income taxes	89,547	42,063	(63,664)
Income tax (benefit) expense	(9)	4	6
Net income (loss)	89,556	42,059	(63,670)
Less: Preferred stock dividends and accretion	59,641	19,833	
Net income (loss) attributable to common and participating preferred stockholders	$ 29,915	$ 22,226	$ (63,670)

(a) Date from which the registrant s results of operations are included in the accompanying consolidated financial statements, as discussed further in Note 1 to the consolidated financial statements.

See accompanying Report of Independent Registered Public Accounting Firm.

SCHEDULE II

(continued)

HARBINGER GROUP INC. (Registrant Only)

STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended September 30,		Period from June 16, 2010 through September 30, 2010
	September 30, 2012	September 30, 2011	
Cash flows from operating activities:			
Net income (loss)	$ 89,556	$ 42,059	$ (63,670)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation of properties	133	91	19
Stock-based compensation	1,886	116	34
Amortization of debt issuance costs	2,856	1,770	
Amortization of debt discount	571	613	
Deferred income taxes	3,582	376	881
Equity in net (income) losses of subsidiaries	(354,628)	(75,014)	55,772
Dividends from subsidiaries	69,470	20,000	
Increase (decrease) in fair value of equity conversion feature of preferred stock	156,600	(27,910)	
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(4,640)	62	(561)
Accounts payable and accrued and other current liabilities	27,042	15,697	989
Other operating	(1,652)	1,797	701
Net cash used in operating activities	(9,224)	(20,343)	(5,835)
Cash flows from investing activities:			
Proceeds from investments sold, matured or repaid	108,887	101,006	30,094
Cost of investments acquired	(67,983)	(121,930)	(3,989)
Capital contributions to consolidated subsidiaries	(36,330)	(727,162)	
Return of capital from subsidiary	88,000		
(Advances to) repayments from consolidated subsidiaries	49,339	(49,339)	
Capital expenditures	(26)	(345)	(58)
Net cash provided by (used in) investing activities	141,887	(797,770)	26,047
Cash flows from financing activities:			
Dividends paid on preferred stock	(31,670)		
Proceeds from senior secured notes		498,459	
Proceeds from preferred stock issuance, net of issuance costs		385,973	
Debt issuance costs		(16,207)	
Other financing activities		416	
Net cash provided by (used in) financing activities	(31,670)	868,641	

Net increase in cash and cash equivalents	100,993	50,528	20,212
Cash and cash equivalents at beginning of period	134,790	84,262	64,050
Cash and cash equivalents at end of period	$ 235,783	$ 134,790	$ 84,262

(a) Date from which the registrant s results of operations are included in the accompanying consolidated financial statements, as discussed further in Note 1 to the consolidated financial statements.

See accompanying Report of Independent Registered Public Accounting Firm.

SCHEDULE III

HARBINGER GROUP INC. AND SUBSIDIARIES

Supplementary Insurance Information

(In thousands)

	As of or for the year ended September 30, 2012	2011
Life Insurance (single segment):		
Deferred acquisition costs	$ 169,223	$ 38,107
Future policy benefits, losses, claims and loss expenses	3,614,788	3,598,208
Unearned premiums		
Other policy claims and benefits payable	91,082	56,650
Premium revenue	55,297	39,002
Net investment income	716,176	369,840
Benefits, claims, losses and settlement expenses	(777,372)	(247,632)
Amortization of deferred acquisition costs	(15,219)	(899)
Other operating expenses	(119,913)	(72,390)

See accompanying Report of Independent Registered Public Accounting Firm.

SCHEDULE IV

HARBINGER GROUP INC. AND SUBSIDIARIES

Reinsurance

(Dollars in thousands)

For the year ended September 30, 2012	Gross Amount	Ceded to other companies	Assumed from other companies	Net Amount	Percentage of amount assumed to net
Life insurance in force	$ 2,436,312	$ (1,929,017)	$ 22,812	$ 530,107	4.30%
Premiums and other considerations:					
Traditional life insurance premiums	$ 297,964	$ (289,846)	$ 47,179	$ 55,297	85.32%
Annuity product charges	117,881	(79,603)		38,278	0.00%
Total premiums and other considerations	$ 415,845	$ (369,449)	$ 47,179	$ 93,575	50.42%

For the year ended September 30, 2011	Gross Amount	Ceded to other companies	Assumed from other companies	Net Amount	Percentage of amount assumed to net
Life insurance in force	$ 2,256,696	$ (1,180,412)	$ 22,641	$ 1,098,925	2.06%
Premiums and other considerations:					
Traditional life insurance premiums	$ 157,772	$ (141,628)	$ 22,858	$ 39,002	58.61%
Annuity product charges	68,436	(18,776)		49,660	0.00%
Total premiums and other considerations	$ 226,208	$ (160,404)	$ 22,858	$ 88,662	25.78%

See accompanying Report of Independent Registered Public Accounting Firm.

HARBINGER GROUP INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS OF CERTAIN SUBSIDIARIES INCLUDED PURSUANT TO

RULE 3-16 OF REGULATION S-X

1. SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2012 and 2011, and the related consolidated statements of operations, shareholders equity (deficit) and comprehensive income (loss), and cash flows for each of the years in the three-year period ended September 30, 2012. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule II. These consolidated financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule 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 Spectrum Brands Holdings, Inc. and subsidiaries as of September 30, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2012, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Milwaukee, Wisconsin

November 21, 2012

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Financial Position

September 30, 2012 and September 30, 2011

(In thousands, except per share amounts)

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$ 157,961	$ 142,414
Receivables:		
Trade accounts receivable, net of allowances of $21,870 and $14,128, respectively	335,301	356,605
Other	38,116	37,678
Inventories	452,633	434,630
Deferred income taxes	28,143	28,170
Prepaid expenses and other	49,273	48,792
Total current assets	1,061,427	1,048,289
Property, plant and equipment, net	214,017	206,389
Deferred charges and other	27,711	36,824
Goodwill	694,245	610,338
Intangible assets, net	1,714,929	1,683,909
Debt issuance costs	39,320	40,957
Total assets	$ 3,751,649	$ 3,626,706
Liabilities and Shareholders Equity		
Current liabilities:		
Current maturities of long-term debt	$ 16,414	$ 16,090
Accounts payable	325,023	323,171
Accrued liabilities:		
Wages and benefits	82,119	70,945
Income taxes payable	30,272	31,606
Accrued interest	30,473	30,467
Other	126,330	134,633
Total current liabilities	610,631	606,912
Long-term debt, net of current maturities	1,652,886	1,535,522
Employee benefit obligations, net of current portion	89,994	83,802
Deferred income taxes	377,465	337,336
Other	31,578	44,637
Total liabilities	2,762,554	2,608,209
Commitments and contingencies		
Shareholders equity:		
Common stock, $.01 par value, authorized 200,000 shares; issued 52,799 and 52,431 shares; outstanding 51,483 and 52,226 shares at September 30, 2012 and September 30, 2011, respectively	528	525
Additional paid-in capital	1,399,261	1,374,097
Accumulated deficit	(340,647)	(336,063)
Accumulated other comprehensive loss	(33,435)	(14,446)
	1,025,707	1,024,113
Less treasury stock at cost, 1,316 and 205 shares, respectively	(36,612)	(5,616)

Total shareholders equity	989,095	1,018,497
Total liabilities and shareholders equity	$ 3,751,649	$ 3,626,706

See accompanying notes to consolidated financial statements.

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended September 30, 2012, 2011 and 2010

(In thousands, except per share amounts)

	2012	2011	2010
Net sales	$ 3,252,435	$ 3,186,916	$ 2,567,011
Cost of goods sold	2,126,922	2,050,208	1,638,451
Restructuring and related charges	9,835	7,841	7,150
Gross profit	1,115,678	1,128,867	921,410
Operating expenses:			
Selling	521,191	536,535	466,813
General and administrative	218,832	241,631	199,386
Research and development	33,087	32,901	31,013
Acquisition and integration related charges	31,066	36,603	38,452
Restructuring and related charges	9,756	20,803	16,968
Intangible asset impairment		32,450	
	813,932	900,923	752,632
Operating income	301,746	227,944	168,778
Interest expense	191,911	208,329	277,015
Other expense, net	878	2,491	12,300
Income (loss) from continuing operations before reorganization items and income taxes	108,957	17,124	(120,537)
Reorganization items expense, net			3,646
Income (loss) from continuing operations before income taxes	108,957	17,124	(124,183)
Income tax expense	60,385	92,295	63,189
Income (loss) from continuing operations	48,572	(75,171)	(187,372)
Loss from discontinued operations, net of tax			(2,735)
Net income (loss)	$ 48,572	$ (75,171)	$ (190,107)
Basic net income (loss) per common share:			
Income (loss) from continuing operations	$ 0.94	$ (1.47)	$ (5.20)
Loss from discontinued operations			(0.08)
Net income (loss)	$ 0.94	$ (1.47)	$ (5.28)
Weighted average shares of common stock outstanding	51,608	51,092	36,000
Diluted net income (loss) per common share:			
Income (loss) from continuing operations	$ 0.91	$ (1.47)	$ (5.20)
Loss from discontinued operations			(0.08)
Net income (loss)	$ 0.91	$ (1.47)	$ (5.28)
Weighted average shares of common stock and common stock equivalents outstanding	53,309	51,092	36,000
Cash dividends declared per common share	1.00		

See accompanying notes to consolidated financial statements.

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders Equity (Deficit) and Comprehensive Income (Loss)

Years ended September 30, 2012, 2011 and 2010

(In thousands)

	Common Stock				Accumulated Other Comprehensive Income		
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	(Loss), net of tax	Treasury Stock	Total Shareholders Equity (Deficit)
Balances at September 30, 2009	30,000	$ 300	$ 724,796	$ (70,785)	$ 6,568	$	$ 660,879
Net loss				(190,107)			(190,107)
Adjustment of additional minimum pension liability					(17,773)		(17,773)
Valuation allowance adjustment					(2,398)		(2,398)
Translation adjustment					12,596		12,596
Other unrealized loss					(6,490)		(6,490)
Comprehensive loss							(204,172)
Issuance of common stock	20,433	205	574,998				575,203
Issuance of restricted stock	939	9	(9)				
Unvested restricted stock units, not issued or outstanding	(271)						
Treasury shares surrendered	(81)					(2,207)	(2,207)
Amortization of unearned compensation			16,676				16,676
Balances at September 30, 2010	51,020	$ 514	$ 1,316,461	$ (260,892)	$ (7,497)	$ (2,207)	$ 1,046,379
Net loss				(75,171)			(75,171)
Adjustment of additional minimum pension liability					(4,299)		(4,299)
Valuation allowance adjustment					2,706		2,706
Translation adjustment					(10,115)		(10,115)
Other unrealized gains					4,759		4,759
Comprehensive loss							(82,120)
Issuance of common stock	1,150	11	29,840				29,851
Vesting of restricted stock units	180						
Treasury shares surrendered	(124)					(3,409)	(3,409)
Amortization of unearned compensation			30,389				30,389
Restricted stock units surrendered			(2,593)				(2,593)
Balances at September 30, 2011	52,226	$ 525	$ 1,374,097	$ (336,063)	$ (14,446)	$ (5,616)	$ 1,018,497
Net income				48,572			48,572
Adjustment of additional minimum pension liability					(11,150)		(11,150)
Valuation allowance adjustment					126		126
Translation adjustment					(8,602)		(8,602)
Other unrealized gains					637		637
Comprehensive income							29,583
Vesting of restricted stock units	368	3	(3)				
Treasury stock purchases	(1,111)					(30,996)	(30,996)
Amortization of unearned compensation			29,164				29,164
Restricted stock units surrendered			(3,997)				(3,997)
Dividend declared				(53,156)			(53,156)
Balances at September 30, 2012	51,483	$ 528	$ 1,399,261	$ (340,647)	$ (33,435)	$ (36,612)	$ 989,095

See accompanying notes to consolidated financial statements.

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended September 30, 2012, 2011 and 2010

(In thousands)

	2012	2011	2010
Cash flows from operating activities:			
Net income (loss)	$ 48,572	$ (75,171)	$ (190,107)
Loss from discontinued operations, net of tax			(2,735)
Income (loss) from continuing operations	48,572	(75,171)	(187,372)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation	40,950	47,065	54,822
Amortization of intangibles	63,666	57,695	45,920
Amortization of unearned restricted stock compensation	29,164	30,389	16,676
Amortization of debt issuance costs	9,922	13,198	9,030
Intangible asset impairment		32,450	
Administrative related reorganization items			3,646
Payments for administrative related reorganization items			(47,173)
Non-cash increase to cost of goods sold due to fresh-start reporting inventory valuation			34,865
Non-cash interest expense on 12% Notes			24,555
Write off of unamortized (premium) discount on retired debt	(466)	8,950	59,162
Write off of debt issuance costs	2,946	15,420	6,551
Non-cash restructuring and related charges	5,195	15,143	16,359
Non-cash debt accretion	722	4,773	18,302
Changes in assets and liabilities:			
Accounts receivable	22,892	12,969	12,702
Inventories	(11,642)	96,406	(66,127)
Prepaid expenses and other current assets	561	815	2,025
Accounts payable and accrued liabilities	1,424	(60,505)	86,497
Deferred taxes and other	40,909	27,792	(21,881)
Net cash provided by operating activities of continuing operations	254,815	227,389	68,559
Net cash used by operating activities of discontinued operations			(11,221)
Net cash provided by operating activities	254,815	227,389	57,338
Cash flows from investing activities:			
Purchases of property, plant and equipment	(46,809)	(36,160)	(40,316)
Acquisition of Black Flag	(43,750)		
Acquisition of FURminator, net of cash acquired	(139,390)		
Acquisition of Seed Resources, net of cash acquired		(11,053)	
Proceeds from sale of assets held for sale		6,997	
Other investing activity	(1,545)	(5,480)	(2,189)
Net cash used by investing activities	(231,494)	(45,696)	(42,505)
Cash flows from financing activities:			
Proceeds from issuance of 6.75% Notes	300,000		
Payment of 12% Notes, including tender and call premium	(270,431)		
Proceeds from issuance of 9.5% Notes, including premium	217,000		
Proceeds from senior credit facilities, excluding ABL revolving credit facility, net of discount			1,474,755
Payment of senior credit facilities, excluding ABL revolving credit facility	(155,061)	(224,763)	(1,278,760)
Prepayment penalty of term loan facility		(5,653)	
Reduction of other debt	(4,112)		(8,456)
Other debt financing, net	392	5,788	13,688
Debt issuance costs, net of refund	(11,231)	(12,616)	(55,024)
ABL revolving credit facility, net			(33,225)
Payments of supplemental loan			(45,000)
Cash dividends paid	(51,450)		
Treasury stock purchases	(30,996)	(3,409)	(2,207)

Net proceeds from equity offering		29,851	
Other financing activities	(953)		
Net cash (used) provided by financing activities	(6,842)	(210,802)	65,771
Effect of exchange rate changes on cash and cash equivalents due to Venezuela hyperinflation			(8,048)
Effect of exchange rate changes on cash and cash equivalents	(932)	909	258
Net increase (decrease) in cash and cash equivalents	15,547	(28,200)	72,814
Cash and cash equivalents, beginning of period	142,414	170,614	97,800
Cash and cash equivalents, end of period	$ 157,961	$ 142,414	$ 170,614
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 185,384	$ 171,577	$ 136,429
Cash paid for income taxes, net	39,173	37,171	36,951

See accompanying notes to consolidated financial statements.

SPECTRUM BRANDS HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(1) Description of Business

Spectrum Brands Holdings, Inc., a Delaware corporation (SB Holdings), is a diversified 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 common stock trades on the New York Stock Exchange (the NYSE) under the symbol SPB.

Unless the context indicates otherwise, the term the Company, is used to refer to SB Holdings and its subsidiaries subsequent to the Merger and Spectrum Brands prior to the Merger.

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 insect 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 United States (U.S.), Europe, Latin America and Asia.

The Company sells its products in approximately 140 countries through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, industrial distributors and original equipment manufacturers and enjoys 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, Dingo, Nature s Miracle, Spectracide, Cutter, Hot Shot, Black & Decker, George Foreman, Russell Hobbs, Farberware, Black Flag, FURminator and various other brands.

The Company s global branded consumer products have positions in six major product categories: consumer batteries; small appliances; pet supplies; electric shaving and grooming; electric personal care; and home and garden controls. Effective October 1, 2010, the Company s chief operating decision-maker manages the businesses of the Company 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 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 business (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 and electric personal care products, with substantially all of the former Small Appliances segment (Small Appliances), which consisted of the Russell Hobbs business acquired on June 16, 2010, to form 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. Management reviews the performance of the Company based on these segments. The presentation of all historical segment data herein has been changed to conform to this segment reporting structure, which reflects the manner in which the Company s management monitors performance and allocates resources. For information pertaining to our business segments, see Note 11, Segment Information .

On October 8, 2012, the Company entered into an agreement with Stanley Black & Decker, Inc. (Stanley Black & Decker) to acquire the residential hardware and home improvement business (the HHI Business) currently operated by Stanley Black & Decker and certain of its subsidiaries for $1,400,000, consisting of (i) the equity interests of certain subsidiaries of Stanley Black & Decker engaged in the business and (ii) certain assets of Stanley Black & Decker used or held for use in connection with the business (the Hardware Acquisition). The Hardware Acquisition, when completed, will include the purchase of shares and assets of certain subsidiaries of Stanley Black & Decker involved in the HHI Business. Furthermore, the Hardware Acquisition, when completed, will also include the purchase of certain assets of Tong Lung Metal Industry Co. Ltd., a Taiwan Corporation (TLM Taiwan), which is involved in the production of residential locksets. For further information pertaining to this transaction, see Note 17, Subsequent Events .

(2) Significant Accounting Policies and Practices

(a) Principles of Consolidation and Fiscal Year End

The consolidated financial statements include the financial statements of Spectrum Brands Holdings, Inc. and its subsidiaries and are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). All intercompany transactions have been eliminated. The Company s fiscal year ends September 30. References herein to Fiscal 2012, 2011 and 2010 refer to the fiscal years ended September 30, 2012, 2011 and 2010, respectively.

(b) Revenue Recognition

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

The Company enters into various promotional arrangements, primarily with retail customers, including arrangements entitling such retailers to cash rebates from the Company based on the level of their purchases, which require the Company to estimate and accrue the estimated costs of the promotional programs. These costs are treated as a reduction of Net sales.

The Company also enters into promotional arrangements that target the ultimate consumer. The costs associated with such arrangements are treated as either a reduction of Net sales or an increase of Cost of goods sold, based on the type of promotional program. The income statement presentation of the Company s promotional arrangements complies with Accounting Standards Codification (ASC) Topic 605: *Revenue Recognition.* For all types of promotional arrangements and programs, the Company monitors its commitments and uses various measures, including past experience, to determine amounts to be recorded for the estimate of the earned, but unpaid, promotional costs. The terms of the Company s customer-related promotional arrangements and programs are tailored to each customer and are documented through written contracts, correspondence or other communications with the individual customers.

The Company also enters into various arrangements, primarily with retail customers, which require the Company to make upfront cash, or slotting payments, in order to secure the right to distribute through such customers. The Company capitalizes slotting payments; provided the payments are supported by a time or volume based arrangement with the retailer, and amortizes the associated payment over the appropriate time or volume based term of the arrangement. The amortization of slotting payments is treated as a reduction in Net sales and a corresponding asset is reported in Deferred charges and other in the accompanying Consolidated Statements of Financial Position.

(c) 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. Actual results could differ from those estimates.

(d) Cash Equivalents

For purposes of the accompanying Consolidated Statements of Financial Position and Consolidated Statements of Cash Flows, the Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

(e) Concentrations of Credit Risk and Major Customers

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, but generally does not require collateral. The Company monitors its customers credit and financial condition based on changing economic conditions and will make adjustments to credit policies as required. Provisions for losses on uncollectible trade receivables are determined based on ongoing evaluations of the Company s receivables, principally on the basis of historical collection experience 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 major customer represented approximately 23%, 24% and 22% of the Company s Net sales during Fiscal 2012, Fiscal 2011 and Fiscal 2010. This major customer also represented approximately 13% and 16% of the Company s Trade accounts receivable, net as of September 30, 2012 and September 30, 2011, respectively.

Approximately 46%, 44% and 44% of the Company s Net sales during Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively, occurred outside of the United States. These sales and related receivables are subject to varying degrees of credit, currency, and political and economic risk. The Company monitors these risks and makes appropriate provisions for collectibility based on an assessment of the risks present.

(f) Displays and Fixtures

Temporary displays are generally disposable cardboard displays shipped to customers to facilitate display of the Company s products. Temporary displays are generally disposed of after a single use by the customer.

Permanent fixtures are more permanent in nature, are generally made from wire or other longer-lived materials, and are shipped to customers for use in displaying the Company s products. These permanent fixtures are restocked with the Company s product multiple times over the fixture s useful life.

The costs of both temporary and permanent displays are capitalized as a prepaid asset until shipped to the customer and are included in Prepaid expenses and other in the accompanying Consolidated Statements of Financial Position. The costs of temporary displays are expensed in the period in which they are shipped to customers and the costs of permanent fixtures are amortized over an estimated useful life of one to two years from the date they are shipped to customers and are reflected in Deferred charges and other in the accompanying Consolidated Statements of Financial Position.

(g) Inventories

The Company s inventories are valued at the lower of cost or net realizable value. Cost of inventories is determined using the first-in, first-out (FIFO) method.

(h) Property, Plant and Equipment

Property, plant and equipment are recorded at cost or at fair value if acquired in a purchase business combination. Depreciation on plant and equipment is calculated on the straight-line method over the estimated useful lives of the assets. Depreciable lives by major classification are as follows:

Building and improvements	20-40 years
Machinery, equipment and other	2-15 years

Plant and equipment held under capital leases are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset and is included in depreciation expense.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company evaluates recoverability of assets to be held and used by comparing the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(i) Intangible Assets

Intangible assets are recorded at cost or at fair value if acquired in a purchase business combination. In connection with fresh-start reporting, Intangible Assets were recorded at their estimated fair value on August 30, 2009. Customer lists, proprietary technology and certain trade name intangibles are amortized, using the straight-line method, over their estimated useful lives of approximately 1 to 20 years. Excess of cost over fair value of net assets acquired (goodwill) and indefinite-lived intangible assets (certain 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 impairment is indicated, a write-down to fair value (normally measured by discounting estimated future cash flows) is recorded. Indefinite-lived trade name intangibles are tested for impairment at least annually by comparing the fair value, determined using a relief from royalty methodology, with the carrying value. Any excess of carrying value over fair value is recognized as an impairment loss in income from operations.

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. The Company s 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.

During Fiscal 2012, Fiscal 2011 and Fiscal 2010, the Company s goodwill and trade name intangibles were tested for impairment as of the Company s August financial period end, the Company s annual testing date, as well as in certain interim periods where an event or circumstance occurred that indicated an impairment loss may have been incurred.

Intangibles with Indefinite Lives

In accordance with ASC 350, the Company conducts impairment testing on the Company s goodwill. To determine fair value during Fiscal 2012, Fiscal 2011 and Fiscal 2010, the Company used the discounted estimated future cash flows methodology and third party valuations. Assumptions critical to the Company s fair value estimates under the discounted estimated future cash flows methodology are: (i) the present value factors used in determining the fair value of the reporting units and trade names; (ii) projected average revenue growth rates used in estimating future cash flows for the reporting unit; and (iii) projected long-term growth rates used in the derivation of terminal year values. These and other assumptions are impacted by economic conditions and expectations of management and will change in the future based on period specific facts and circumstances. The Company also tested the aggregate estimated fair value of its reporting units for reasonableness by comparison to the total market capitalization of the Company, which includes both its equity and debt securities.

In addition, in accordance with ASC 350, as part of the Company s annual impairment testing, the Company tested its indefinite-lived trade name intangible assets for impairment by comparing the carrying amount of such trade names to their respective fair values. Fair value was determined using a relief from royalty methodology. Assumptions critical to the Company s fair value estimates under the relief from royalty methodology were: (i) royalty rates, (ii) projected average revenue growth rates, and (iii) applicable discount rates.

In connection with the Company s annual goodwill impairment testing performed during Fiscal 2012, Fiscal 2011 and Fiscal 2010 the first step of such testing indicated that the fair value of the Company s reporting segments were in excess of their carrying amounts and, accordingly, no further testing of goodwill was required.

During Fiscal 2012, the Company concluded that the fair value of its intangible assets exceeded their carrying value. Additionally, during Fiscal 2012 the Company reclassified $3,450 of certain trade names from indefinite lived to definite lived. These trade names are being amortized over the remaining useful lives, which have been estimated to be 1-3 years.

A triggering event occurred in Fiscal 2011 which required the Company to test its indefinite-lived intangible assets for impairment between annual impairment dates. As more fully discussed above in Note 1, Description of Business, on October 1, 2010, the Company realigned its operating segments into three vertically integrated, product-focused reporting segments. The realignment of the Company s operating segments constituted a triggering event for impairment testing. In connection with this interim test, the Company compared the fair value of its reporting segments to their carrying amounts both before and after the change in segment composition, and determined the fair values were in excess of their carrying amounts and, accordingly, no further testing of goodwill was required. The Company also tested the recoverability of its identified indefinite-lived intangibles in connection with the realignment of its operating segments and concluded that the fair values of these assets exceeded their carrying values.

In connection with its annual impairment testing of indefinite-lived intangible assets during Fiscal 2011, the Company concluded that the fair values of certain trade name intangible assets were less than the carrying amounts of those assets. As a result, during Fiscal 2011 the Company recorded a non-cash pretax intangible asset impairment charge of approximately $32,450 which was equal to the excess of the carrying amounts of the intangible assets over the fair value of such assets. This non-cash impairment of trade name intangible assets has been recorded as a separate component of Operating expenses. During Fiscal 2010 the Company concluded that the fair value of its intangible assets exceeded their carrying value.

The above impairment of trade name intangible assets was primarily attributed to lower current and forecasted profits, reflecting more conservative growth rates versus those originally assumed by the Company at the time of acquisition or upon adoption of fresh start reporting.

Intangibles with Definite or Estimable Useful Lives

The Company assesses the recoverability of intangible assets with definite or estimable useful lives whenever an event or circumstance occurs that indicates an impairment loss may have been incurred. The Company assesses the recoverability of these intangible assets by determining whether their carrying value can be recovered through projected undiscounted future cash flows. If projected undiscounted future cash flows indicate that the carrying value of the assets will not be recovered, an adjustment would be made to reduce the carrying value to an amount equal to estimated fair value determined based on projected future cash flows discounted at the

Company s incremental borrowing rate. The cash flow projections used in estimating fair value are based on historical performance and management s estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions.

Impairment reviews are conducted at the judgment of management when it believes that a change in circumstances in the business or external factors warrants a review. Circumstances such as the discontinuation of a product or product line, a sudden or consistent decline in the sales forecast for a product, changes in technology or in the way an asset is being used, a history of operating or cash flow losses, or an adverse change in legal factors or in the business climate, among others, may trigger an impairment review.

(j) Debt Issuance Costs

Debt issuance costs are capitalized and amortized to interest expense using the effective interest method over the lives of the related debt agreements.

(k) Accounts Payable

Included in accounts payable are book overdrafts, net of deposits on hand, on disbursement accounts that are replenished when checks are presented for payment.

(l) Income Taxes

Income taxes are accounted for under the asset and liability method. 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 and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Accrued interest expense and penalties related to uncertain tax positions are recorded in Income tax expense.

(m) Foreign Currency Translation

Local currencies are considered the functional currencies for most of the Company s operations outside the United States. Assets and liabilities of the Company s foreign subsidiaries are translated at the rate of exchange existing at year-end, with revenues, expenses, and cash flows translated at the average of the monthly exchange rates. Adjustments resulting from translation of the financial statements are recorded as a component of Accumulated other comprehensive income (loss) (AOCI). Also included in AOCI are the effects of exchange rate changes on intercompany balances of a long-term nature.

As of September 30, 2012 and September 30, 2011, accumulated (losses) gains related to foreign currency translation adjustments of $(225) and $8,377, respectively, were reflected in the accompanying Consolidated Statements of Financial Position in AOCI.

Foreign currency transaction gains and losses related to assets and liabilities that are denominated in a currency other than the functional currency are reported in the Consolidated Statements of Operations in the period they occur. Exchange losses on foreign currency transactions aggregating $1,654, $3,370 and $13,336 for Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively, are included in Other expense (income), net, in the accompanying Consolidated Statements of Operations.

(n) Shipping and Handling Costs

The Company incurred shipping and handling costs of $198,152, $201,480 and $161,148 during Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively. Shipping and handling costs, which are included in Selling expenses in the accompanying Consolidated Statements of Operations, include costs incurred with third-party carriers to transport products to customers and salaries and overhead costs related to activities to prepare the Company s products for shipment at the Company s distribution facilities.

(o) Advertising Costs

The Company incurred advertising costs of $20,706, $30,673 and $37,520 during Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively. Such advertising costs are included in Selling expenses in the accompanying Consolidated Statements of Operations and include agency fees and other costs to create advertisements, as well as costs paid to third parties to print or broadcast the Company s advertisements.

(p) Research and Development Costs

Research and development costs are charged to expense in the period they are incurred.

(q) Net Income (Loss) Per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period. Basic net income (loss) per common share does not consider the effect of dilutive common stock equivalents. As long as their effect is not anti-dilutive, diluted net income (loss) per common share reflects the dilution that would occur if employee stock units and restricted stock awards were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the net income (loss) of the entity. The computation of diluted net income (loss) per common share uses the treasury stock method to reflect dilution. The difference between the number of shares used in the calculations of basic and diluted net income (loss) per share is due to the effects of restricted stock and assumed conversion of employee stock unit awards.

Net income (loss) per common share is calculated based upon the following shares:

	Year Ended		
	September 30, 2012	**September 30, 2011**	**September 30, 2010**
Basic	51,608	51,092	36,000
Effect of restricted stock	1,701		
Diluted	53,309	51,092	36,000

During Fiscal 2011 and Fiscal 2010, the Company has not assumed the exercise of common stock equivalents as the impact would be antidilutive.

On June 16, 2010, the Company issued 20,433 shares of its common stock in conjunction with the Merger. Additionally, all shares of its wholly owned subsidiary Spectrum Brands, were converted to shares of SB Holdings on June 16, 2010. On July 20, 2011, the Company issued an additional 1,150 shares of its common stock. See also, Note 15, Acquisitions, for additional discussion of the Merger.

(r) Environmental Expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed or capitalized as appropriate. The Company determines its liability for environmental matters on a site-by-site basis and records a liability at the time when it is probable that a liability has been incurred and such liability can be reasonably estimated. The estimated liability is not reduced for possible recoveries from insurance carriers. Estimated environmental remediation expenditures are included in the determination of the net realizable value recorded for assets held for sale.

(s) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

(t) Comprehensive Income

Comprehensive income includes foreign currency translation gains and losses on assets and liabilities of foreign subsidiaries, effects of exchange rate changes on intercompany balances of a long-term nature and transactions designated as a hedge of a net investment in a foreign subsidiary, deferred gains and losses on derivative financial instruments designated as cash flow hedges and additional minimum pension liabilities associated with the Company s pension plans. Except for gains and losses resulting from exchange rate changes on intercompany balances of a long-term nature, and prior to September 30, 2011, the Company did not provide income taxes on currency translation adjustments, as earnings from international subsidiaries were considered to be permanently reinvested. As of the beginning of Fiscal 2012, the Company is no longer permanently reinvested on current and future earnings from international subsidiaries, except for locations precluded by certain restrictions from repatriating earnings.

The following is a roll forward of the amounts recorded in AOCI:

	Unrealized Gains (Losses)	Adjustment of minimum pension liability	Translation Adjustments	Total
Balance at September 30, 2009	$ 851	$ (190)	$ 5,907	$ 6,568
Gross change before reclassification adjustment	(15,621)	(28,032)	11,511	(32,142)
Net reclassification adjustment for losses (gains) included in earnings	6,356	1,355		7,711
Gross change after reclassification adjustment	$ (9,265)	$ (26,677)	$ 11,511	$ (24,431)
Deferred tax effect	2,775	8,904	1,085	12,764
Deferred tax valuation allowance	(116)	(2,763)	481	(2,398)
Net adjustment to AOCI	$ (6,606)	$ (20,536)	$ 13,077	$ (14,065)
Balance at September 30, 2010	$ (5,755)	$ (20,726)	$ 18,984	$ (7,497)
Gross change before reclassification adjustment	(5,992)	(6,344)	(12,857)	(25,193)
Net reclassification adjustment for losses (gains) included in earnings	13,422	8		13,430
Gross change after reclassification adjustment	$ 7,430	$ (6,336)	$ (12,857)	$ (11,763)
Deferred tax effect	(2,671)	2,037	2,742	2,108
Deferred tax valuation allowance	(331)	3,529	(492)	2,706
Net adjustment to AOCI	$ 4,428	$ (770)	$ (10,607)	$ (6,949)
Balance at September 30, 2011	$ (1,327)	$ (21,496)	$ 8,377	$ (14,446)
Gross change before reclassification adjustment	(1,824)	(15,682)	(8,602)	(26,108)
Net reclassification adjustment for losses (gains) included in earnings	3,097	900		3,997
Gross change after reclassification adjustment	$ 1,273	$ (14,782)	$ (8,602)	$ (22,111)
Deferred tax effect	(636)	3,632		2,996
Deferred tax valuation allowance	908	(782)		126
Net adjustment to AOCI	$ 1,545	$ (11,932)	$ (8,602)	$ (18,989)
Balance at September 30, 2012	$ 218	$ (33,428)	$ (225)	$ (33,435)

(u) Stock Compensation

The Company measures the cost of its stock-based compensation plans, which include restricted stock awards and restricted stock units, based on the fair value of its employee stock awards at the date of grant and recognizes these costs over the requisite service period of the awards.

In September 2009, SB Holdings 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. Prior to October 21, 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.

In conjunction with the Merger, SB Holdings adopted 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). Prior to October 21, 2010, up to 600 shares of common stock, net of forfeitures and cancellations, could have been issued under the RH Plan. After October 21, 2010, no further awards may be made under the 2007 RH Plan.

On October 21, 2010, SB Holdings Board of Directors adopted the Spectrum Brands Holdings, Inc. 2011 Omnibus Equity Award Plan (the 2011 Plan), which was approved at the Annual Meeting of Stockholders on March 1, 2011. Up to 4,626 shares of common stock of SB Holdings, net of cancellations, may be issued under the 2011 Plan.

Total stock compensation expense associated with restricted stock awards recognized by the Company during Fiscal 2012 was $29,164 or $18,956, net of taxes. The amounts before tax are included in General and administrative expenses in the accompanying Consolidated Statements of Operations, of which $131 or $85 net of taxes, related to the accelerated vesting of certain awards to terminated employees.

Total stock compensation expense associated with restricted stock units recognized by the Company during Fiscal 2011 was $30,389 or $19,753, net of taxes. The amounts before tax are included in General and administrative expenses in the accompanying Consolidated Statements of Operations, of which $467 or $304 net of taxes, related to the accelerated vesting of certain awards to terminated employees.

Total stock compensation expense associated with restricted stock awards recognized by the Company during Fiscal 2010 was $16,676 or $10,839, net of taxes. The amounts before tax are included in General and administrative expenses and Restructuring and related charges in the accompanying Consolidated Statements of Operations, of which $2,141 or $1,392 net of taxes, was included in Restructuring and related charges primarily related to the accelerated vesting of certain awards to terminated employees.

The Company granted approximately 863 restricted stock units during Fiscal 2012. Of these grants, 160 restricted stock units are time-based and vest over a period ranging from one year to two years. The remaining 703 restricted stock units are both performance and time-based and vest over a one year performance-based period followed by a one year time-based period. The total market value of the restricted stock units on the date of the grant was approximately $24,408.

The Company granted approximately 1,674 restricted stock units during Fiscal 2011. Of these grants, 93 restricted stock units are time-based and vest over a period ranging from one year to three years. The remaining 1,581 restricted stock units are both performance and time-based and vest as follows: (i) 699 stock units vest over a one year performance-based period followed by a one year time-based period and (ii) 882 stock units vest over a two year performance-based period followed by a one year time-based period. The total market value of the restricted stock units on the date of the grant was approximately $48,530.

The fair value of restricted stock and restricted stock unit awards is determined based on the market price of the Company s shares on the grant date. A summary of the Company s restricted stock and restricted stock unit award activity for Fiscal 2012 and Fiscal 2011, and the non-vested awards outstanding as of September 30, 2012 is as follows:

Restricted Stock Awards	**Shares**	**Weighted Average Grant Date Fair Value**	**Fair Value at Grant Date**
Restricted stock awards at September 30, 2010	446	$ 23.56	$ 10,508
Vested	(323)	23.32	(7,531)
Restricted stock awards at September 30, 2011	123	$ 24.20	$ 2,977
Vested	(110)	23.75	(2,613)
Restricted stock awards at September 30, 2012	13	$ 28.00	$ 364

Restricted Stock Units	**Shares**	**Weighted Average Grant Date Fair Value**	**Fair Value at Grant Date**
Restricted stock units at September 30, 2010	249	$ 28.22	$ 7,028
Granted	1,674	28.99	48,530
Forfeited	(43)	29.47	(1,267)
Vested	(235)	28.23	(6,635)
Restricted stock units at September 30, 2011	1,645	$ 28.97	$ 47,656
Granted	863	28.28	24,408
Forfeited	(57)	28.49	(1,624)
Vested	(520)	29.83	(15,509)
Restricted stock units at September 30, 2012	1,931	$ 28.45	$ 54,931

(v) Restructuring and Related Charges

Restructuring charges are recognized and measured in accordance with the provisions of ASC Topic 420: *Exit or Disposal Cost Obligations,* (ASC 420). Under ASC 420, restructuring charges include, but are not limited to, termination and related costs consisting primarily of one-time termination benefits such as severance costs and retention bonuses, and contract termination costs consisting primarily of lease termination costs. Related charges, as defined by the Company, include, but are not limited to, other costs directly associated with exit and integration activities, including impairment of property and other assets, departmental costs of full-time incremental integration employees, and any other items related to the exit or integration activities. Costs for such activities are estimated by management after evaluating detailed analyses of the costs to be incurred. The Company presents restructuring and related charges on a combined basis. (See also Note 14, Restructuring and Related Charges, for a more complete discussion of restructuring initiatives and related costs).

(w) Acquisition and Integration Related Charges

Acquisition and integration related charges reflected in Operating expenses include, but are not limited to, transaction costs such as banking, legal, accounting and other professional fees directly related to both consummated acquisitions and acquisition targets, termination and related costs for transitional and certain other employees, integration related professional fees and other post business combination expenses associated with mergers and acquisitions.

The following table summarizes acquisition and integration related charges incurred by the Company during Fiscal 2012, Fiscal 2011 and Fiscal 2010:

	2012	2011	2010
Russell Hobbs			
Integration costs	$ 10,168	$ 23,084	$ 3,777
Employee termination charges	3,900	8,105	9,713
Legal and professional fees	1,495	4,883	24,962
Merger related Acquisition and integration related charges	$ 15,563	$ 36,072	$ 38,452
FURminator	7,938		
Black Flag	3,379		
Other	4,186	531	
Total Acquisition and integration related charges	$ 31,066	$ 36,603	$ 38,452

(3) Inventory

Inventories consist of the following:

	September 30, 2012	September 30, 2011
Raw materials	$ 58,515	$ 59,928
Work-in-process	23,434	25,465
Finished goods	370,684	349,237
	$ 452,633	$ 434,630

(4) Property, Plant and Equipment

Property, plant and equipment consist of the following:

	September 30, 2012	September 30, 2011
Land, buildings and improvements	$ 88,580	$ 101,303
Machinery, equipment and other	247,065	202,309
Construction in progress	18,366	10,134
	354,011	313,746
Less accumulated depreciation	139,994	107,357
	$ 214,017	$ 206,389

(5) Goodwill and Intangible Assets

Intangible assets 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
Additions		10,029	255	10,284
Effect of translation	(272)	271		(1)
Balance at September 30, 2011	$ 268,148	$ 170,285	$ 171,905	$ 610,338
Additions		70,023	15,852	85,875
Effect of translation	408	(2,376)		(1,968)
Balance at September 30, 2012	$ 268,556	$ 237,932	$ 187,757	$ 694,245
Intangible Assets:				
Trade names Not Subject to Amortization				
Balance at September 30, 2010	$ 569,945	$ 211,533	$ 76,000	$ 857,478
Additions		2,630	150	2,780
Intangible asset impairment	(23,200)	(8,600)	(650)	(32,450)
Effect of translation	(941)	(72)		(1,013)
Balance at September 30, 2011	$ 545,804	$ 205,491	$ 75,500	$ 826,795
Additions		14,000	8,000	22,000
Reclassification to intangible assets subject to amortization	(920)	(2,530)		(3,450)
Effect of translation	542	(4,819)		(4,277)
Balance at September 30, 2012	$ 545,426	$ 212,142	$ 83,500	$ 841,068
Intangible Assets Subject to Amortization				
Balance at September 30, 2010, net	$ 516,324	$ 230,248	$ 165,310	$ 911,882
Additions		4,193		4,193
Amortization during period	(33,184)	(15,599)	(8,912)	(57,695)
Effect of translation	(1,667)	401		(1,266)
Balance at September 30, 2011, net	$ 481,473	$ 219,243	$ 156,398	$ 857,114
Additions		65,118	17,000	82,118
Reclassification from intangible assets not subject to amortization	920	2,530		3,450
Amortization during period	(32,892)	(19,503)	(11,271)	(63,666)
Effect of translation	(2,389)	(2,766)		(5,155)
Balance at September 30, 2012, net	$ 447,112	$ 264,622	$ 162,127	$ 873,861
Total Intangible Assets, net at September 30, 2012	$ 992,538	$ 476,764	$ 245,627	$ 1,714,929

Intangible assets subject to amortization include proprietary technology, customer relationships and certain trade names, which were recognized in connection with acquisitions and from the application of fresh-start reporting. The useful life of the Company s intangible assets subject to amortization are 4 to 9 years for technology assets related to the Global Pet Supplies segment, 9 to 17 years for technology assets associated with the Global Batteries & Appliances segment, 15 to 20 years for customer relationships of the Global Batteries & Appliances segment, 20 years for customer relationships of the Home and Garden Business and Global Pet Supplies segments, 1 to 12 years for trade names within the Global Batteries & Appliances segment and 3 years for trade names within the Global Pet Supplies segment.

The carrying value and accumulated amortization for intangible assets subject to amortization are as follows:

	September 30, 2012	September 30, 2011
Technology Assets Subject to Amortization:		
Gross balance	$ 90,924	$ 71,805
Accumulated amortization	(22,768)	(13,635)
Carrying value, net	$ 68,156	$ 58,170
Trade Names Subject to Amortization:		
Gross balance	$ 150,829	$ 149,700
Accumulated amortization	(28,347)	(16,320)
Carrying value, net	$ 122,482	$ 133,380
Customer Relationships Subject to Amortization:		
Gross balance	$ 796,235	$ 738,937
Accumulated amortization	(113,012)	(73,373)
Carrying value, net	$ 683,223	$ 665,564
Total Intangible Assets Subject to Amortization	$ 873,861	$ 857,114

ASC 350 requires companies to test goodwill and indefinite-lived intangible assets for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have incurred. During Fiscal 2012, Fiscal 2011 and Fiscal 2010 the Company conducted impairment testing of goodwill and indefinite-lived intangible assets. As a result of this testing, the Company recorded non-cash pretax intangible asset impairment charges of approximately $32,450 during Fiscal 2011 related to impaired trade name intangible assets. (See also Note 2(i), Significant Accounting Policies Intangible Assets, for further details on the impairment charges).

The amortization expense related to intangible assets subject to amortization for Fiscal 2012, Fiscal 2011 and Fiscal 2010 is as follows:

	2012	2011	2010
Proprietary technology amortization	$ 9,133	$ 6,817	$ 6,305
Trade names amortization	14,347	12,558	3,750
Customer relationship amortization	40,186	38,320	35,865
	$ 63,666	$ 57,695	$ 45,920

The Company estimates annual amortization expense for the next five fiscal years will approximate $63,600 per year.

(6) Debt

Debt consists of the following:

	September 30, 2012		September 30, 2011	
	Amount	Rate	Amount	Rate
Term Loan, U.S. Dollar, expiring June 17, 2016	$ 370,175	5.1%	$ 525,237	5.1%
9.5% Notes, due June 15, 2018	950,000	9.5%	750,000	9.5%
6.75% Notes, due March 15, 2020	300,000	6.8%		
12% Notes, due August 28, 2019			245,031	12.0%
ABL Facility, expiring May 3, 2016		4.3%		2.5%
Other notes and obligations	18,059	10.9%	19,333	10.5%
Capitalized lease obligations	26,683	6.2%	24,911	6.2%
	1,664,917		1,564,512	
Original issuance premiums (discounts) on debt	4,383		(12,900)	
Less current maturities	16,414		16,090	
Long-term debt	$ 1,652,886		$ 1,535,522	

The Company s aggregate scheduled maturities of debt and capital lease payments as of September 30, 2012 are as follows:

	Maturities of Debt
2013	$ 16,414
2014	13,164
2015	8,063
2016	361,222
2017	1,500
Thereafter	1,264,554
	$ 1,664,917

The Company s aggregate capitalized lease obligations included in the amounts above are payable in installments of $3,097 in 2013, $3,153 in 2014, $2,513 in 2015, $1,866 in 2016, $1,500 in 2017 and $14,554 thereafter.

The Company has the following debt instruments outstanding at September 30, 2012: (i) a senior secured U.S. dollar term loan (the Term Loan) pursuant to a senior credit agreement (the Senior Credit Agreement); (ii) 9.5% secured notes (the 9.5% Notes); (iii) 6.75% unsecured notes (the 6.75% Notes); and (iv) a $300,000 asset based lending revolving credit facility (the ABL Facility) and, together with the Term Loan, the 9.5% Notes and the 6.75% Notes, (the Senior Credit Facilities).

The 9.5% 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. SB Holdings is not an issuer or guarantor of the 9.5% Notes. SB Holdings is also not a borrower or guarantor under the Company s Term Loan or the ABL 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 Facility and SB/RH Holdings, LLC is a guarantor of that facility.

Term Loan

On December 15, 2011 and June 14, 2012, the Company amended its Term Loan. As a result, the aggregate incremental amount by which the Company, subject to compliance with financial covenants and certain other

conditions, may increase the amount of the commitment under the Term Loan has been increased from $100,000 to $250,000. Certain covenants in respect to indebtedness, liens and interest coverage were also amended to provide for dollar limits more favorable to the Company and, subject to compliance with financial covenants and certain other conditions, to allow for the incurrence of incremental unsecured indebtedness.

On February 1, 2011, the Company completed the refinancing of its Term Loan, which was initially established in connection with the Merger and had an aggregate amount outstanding of $680,000 upon refinancing, with an amended and restated credit agreement. In connection with the refinancing, the Term Loan was issued at par with a maturity date of June 17, 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 interest at a rate per annum equal to, at the Company s option, the LIBO rate (adjusted for statutory reserves) subject to a 1.00% floor plus a margin equal to 4.00%, or an alternate base rate plus a margin equal to 3.00%.

The Term Loan contains financial covenants with respect to debt, including, but not limited to, a maximum leverage ratio and a minimum interest coverage ratio, which covenants, pursuant to their terms, become more restrictive over time. In addition, the Term Loan 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 the respective obligations under the Term Loan and related loan documents and have pledged substantially all of their respective assets to secure such obligations. The Term Loan also provides for customary events of default, including payment defaults and cross-defaults on other material indebtedness.

In connection with the amendments, the Company recorded $792 of fees in connection with the Term Loan during Fiscal 2012. The fees are classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and are amortized as an adjustment to interest expense over the remaining life of the Term Loan. In connection with the amendments, the Company also recorded cash charges of $531 as an increase to interest expense during Fiscal 2012. In connection with voluntary prepayments of $150,000 of the Term Loan during Fiscal 2012, the Company recorded accelerated amortization of portions of the unamortized discount totaling $2,824 as an adjustment to increase interest expense.

The Company recorded $10,545 of fees in connection with the refinancing of the Term Loan during Fiscal 2011. The fees are classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and are amortized as an adjustment to interest expense over the remaining life of the Term Loan. In connection with the refinancing, included in Fiscal 2011 Interest expense are cash charges of $4,954 and accelerated amortization of portions of the unamortized discount and unamortized Debt issuance costs totaling $24,370. In connection with voluntary prepayments of $220,000 of the Term Loan during Fiscal 2011, the Company recorded cash charges of $700 and accelerated amortization of portions of the unamortized discount and unamortized Debt issuance costs totaling $7,521 as an adjustment to increase interest expense.

9.5% Notes

On November 2, 2011, the Company offered $200,000 aggregate principal amount of 9.5% Notes at a price of 108.5% of the par value; these notes are in addition to the $750,000 aggregate principal amount of 9.5% Notes that were already outstanding. The additional notes are guaranteed by SB/RH Holdings, LLC, as well as by existing and future domestic restricted subsidiaries and secured by liens on substantially all of the Company s and the guarantors assets. The additional notes will vote together with the existing 9.5% Notes.

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 9.5% Notes offered in Fiscal 2010 were issued at a 1.37% discount and were recorded net of the $10,245 amount incurred. The discount is reflected as an adjustment to the carrying value of principal, and is being amortized with a corresponding charge to interest expense over the remaining life of the 9.5% Notes. During Fiscal 2012 and Fiscal 2010, the Company recorded $3,581 and $20,823, respectively, of fees in connection with the issuance of the 9.5% Notes. The fees are classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and are amortized as an adjustment to interest expense over the remaining life of the 9.5% Notes.

6.75% Notes

On March 15, 2012, the Company offered $300,000 aggregate principal amount of 6.75% Notes at a price of 100% of the par value. The 6.75% Notes are unsecured and guaranteed by SB/RH Holdings, LLC, as well as by existing and future domestic restricted subsidiaries.

The Company may redeem all or a part of the 6.75% Notes, upon not less than 30 or more than 60 days notice, at specified redemption prices. Further, the indenture governing the 6.75% Notes (the 2020 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.

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

In addition, the 2020 Indenture provides for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments when due or on acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the 2020 Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 6.75% Notes. If any other event of default under the 2020 Indenture occurs and is continuing, the trustee for the 2020 Indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 6.75% Notes may declare the acceleration of the amounts due under those notes.

The Company recorded $6,265 of fees in connection with the offering of the 6.75% Notes during Fiscal 2012. The fees are classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and are amortized as an adjustment to interest expense over the remaining life of the 6.75% Notes.

12% Notes

On March 1, 2012, the Company launched a cash tender offer (the Tender Offer) and consent solicitation (the Consent Solicitation) with respect to any and all of its outstanding 12% Senior Subordinated Toggle Notes due 2019 (the 12% Notes). Pursuant to the Consent Solicitation, the Company received consents to the adoption of certain amendments to the indenture governing the 12% Notes to, among other things, eliminate substantially all of the restrictive covenants, certain events of default and other related provisions. The terms of the Tender Offer provided that holders of the 12% Notes who tendered their 12% Notes prior to the expiration of a consent solicitation period, which ended March 14, 2012, would receive tender offer consideration and a consent payment. Holders tendering their 12% Notes subsequent to expiration of the consent solicitation period, but prior to the March 28, 2012 expiration of the Tender Offer period, would receive only tender offer consideration. As of the expiration of the consent solicitation period, holders of the 12% Notes had tendered approximately $231,421 of the 12% Notes. Following the expiration of the Tender Offer period, an additional $88 of the 12% Notes were tendered. Following expiration of the Tender Offer period, the Company paid the trustee principal, interest and a call premium sufficient to redeem the remaining approximately $13,522 of the 12% Notes not tendered on the first redemption date, August 28, 2012. The trustee under the indenture governing the 12% Notes accepted those funds in trust for the benefit of the holders of the 12% Notes and has acknowledged the satisfaction and discharge of the 12% Notes and the indenture governing the 12% Notes.

In connection with the Tender Offer, the Company recorded $23,777 of fees and expenses as a cash charge to Interest expense in the Consolidated Statements of Operations during Fiscal 2012. In connection with the satisfaction and discharge process, the Company recorded cash charges of $1,623 to Interest expense in the Consolidated Statements of Operations during Fiscal 2012. In addition, $2,097 of debt issuance costs and unamortized premium related to the 12% Notes were written off as a non-cash charge to Interest expense in the Consolidated Statements of Operations during Fiscal 2012.

ABL Facility

On May 24, 2012, the Company amended its ABL Facility. As a result, the maturity date was extended from April 21, 2016 to May 3, 2016.

The amended facility carries an interest rate at the option of the Company, which is subject to change based on availability under the facility, of either: (a) the base rate plus (currently) 0.75% per annum or (b) the reserve-adjusted LIBOR rate plus (currently) 1.75% per annum. No principal amortizations are required with respect to the ABL Facility. Pursuant to the credit and security agreement, the obligations under the ABL Facility are secured by certain current assets of the guarantors, including, but not limited to, deposit accounts, trade receivables and inventory.

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

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

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 Facility. During Fiscal 2011 and Fiscal 2012, the Company recorded $2,071 and $525, respectively, of fees in connection with the amendments to the ABL Facility. The fees are classified as Debt issuance costs within the accompanying Consolidated Statements of Financial Position and are amortized as an adjustment to interest expense over the remaining life of the ABL Facility. In connection with the amendment, the Company also recorded cash charges of $482 as an increase to interest expense during Fiscal 2012. In addition, $382 of debt issuance costs were written off in connection with the amendment as a non-cash charge to Interest expense in the Consolidated Statements of Operations during Fiscal 2012. Pursuant to the credit and security agreement, the obligations under the ABL Credit Agreement are secured by certain current assets of the guarantors, including, but not limited to, deposit accounts, trade receivables and inventory.

As a result of borrowings and payments under the ABL Facility at September 30, 2012, the Company had aggregate borrowing availability of approximately $198,209, net of lender reserves of $7,942 and outstanding letters of credit of $25,302.

At September 30, 2011, the Company had aggregate borrowing availability of approximately $176,612, net of lender reserves of $48,769 and outstanding letters of credit of $32,962.

(7) Derivative Financial Instruments

Derivative financial instruments are used by the Company principally in the management of its interest rate, foreign currency exchange rate 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.

The Company discloses its derivative instruments and hedging activities in accordance with ASC Topic 815: *Derivatives and Hedging,* (ASC 815).

The fair value of outstanding derivative contracts recorded as assets in the accompanying Consolidated Statements of Financial Position were as follows:

Asset Derivatives		**September 30, 2012**	**September 30, 2011**
Derivatives designated as hedging instruments under ASC 815:			
Commodity contracts	Receivables Other	$ 985	$ 274
Commodity contracts	Deferred charges and other	1,017	
Foreign exchange contracts	Receivables Other	1,194	3,189
Total asset derivatives designated as hedging instruments under ASC 815		$ 3,196	$ 3,463
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Receivables Other	41	
Total asset derivatives		$ 3,237	$ 3,463

The fair value of outstanding derivative contracts recorded as liabilities in the accompanying Consolidated Statements of Financial Position were as follows:

Liability Derivatives		**September 30, 2012**	**September 30, 2011**
Derivatives designated as hedging instruments under ASC 815:			
Interest rate contracts	Accounts payable	$	$ 1,246
Interest rate contracts	Accrued interest		708
Commodity contracts	Accounts payable	9	1,228
Commodity contracts	Other long term liabilities		4
Foreign exchange contracts	Accounts payable	3,063	2,698
Total liability derivatives designated as hedging instruments under ASC 815		$ 3,072	$ 5,884
Derivatives not designated as hedging instruments under ASC 815:			
Foreign exchange contracts	Accounts payable	3,967	10,945
Foreign exchange contracts	Other long term liabilities	2,926	12,036
Total liability derivatives		$ 9,965	$ 28,865

Changes in AOCI from Derivative Instruments

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

The following table summarizes the impact of derivative instruments on the accompanying Consolidated Statements of Operations for Fiscal 2012:

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	$ 1,606	Cost of goods sold	$ (1,148)	Cost of goods sold	$ 94
Interest rate contracts	15	Interest expense	(864)	Interest expense	
Foreign exchange contracts	61	Net sales	(474)	Net sales	
Foreign exchange contracts	(3,506)	Cost of goods sold	(611)	Cost of goods sold	
Total	$ (1,824)		$ (3,097)		$ 94

The following table summarizes the impact of derivative instruments on the accompanying Consolidated Statements of Operations for Fiscal 2011:

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	$ (1,750)	Cost of goods sold	$ 2,617	Cost of goods sold	$ (47)
Interest rate contracts	(88)	Interest expense	(3,319)	Interest expense	(205)[(A)]
Foreign exchange contracts	(487)	Net sales	(131)	Net sales	
Foreign exchange contracts	(3,667)	Cost of goods sold	(12,384)	Cost of goods sold	
Total	$ (5,992)		$ (13,217)		$ (252)

(A) Reclassified from AOCI associated with the prepayment of portions of the Senior Credit Facility. See also Note 6, Debt, for a more complete discussion of the Company s refinancing of its Senior Credit Facility.

The following table summarizes the impact of derivative instruments on the accompanying Consolidated Statements of Operations for Fiscal 2010:

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	$ 3,646	Cost of goods sold	$ 719	Cost of goods sold	$ (1)
Interest rate contracts	(13,955)	Interest expense	(4,439)	Interest expense	(6,112)(A)
Foreign exchange contracts	(752)	Net sales	(812)	Net sales	
Foreign exchange contracts	(4,560)	Cost of goods sold	2,481	Cost of goods sold	
Total	$ (15,621)		$ (2,051)		$ (6,113)

(A) Includes $(4,305) reclassified from AOCI associated with the refinancing of the Senior Credit Facility. (See also Note 6, Debt, for a more complete discussion of the Company s refinancing of its Senior Credit Facility.)

Other Changes in Fair Value of Derivative Contracts

For derivative instruments that are used to economically hedge the fair value of the Company s third party and intercompany payments and interest rate payments, the gain (loss) associated with the derivative contract is recognized in earnings in the period of change.

During Fiscal 2012 the Company recognized the following gains on derivative contracts:

	Amount of Gain (Loss) Recognized in Income on Derivatives	**Location of Gain or (Loss) Recognized in Income on Derivatives**
Foreign exchange contracts	$ 5,916	Other expense, net

During Fiscal 2011 the Company recognized the following losses on derivative contracts:

	Amount of Gain (Loss) Recognized in Income on Derivatives	**Location of Gain or (Loss) Recognized in Income on Derivatives**
Foreign exchange contracts	$ (5,052)	Other expense, net

During Fiscal 2010 the Company recognized the following gains (losses) on derivative contracts:

	Amount of Gain (Loss) Recognized in Income on Derivatives	Location of Gain or (Loss) Recognized in Income on Derivatives
Commodity contracts	$ 153	Cost of goods sold
Foreign exchange contracts	(42,039)	Other expense, net
Total	$ (41,886)	

Credit Risk

The Company is exposed to the risk of default by the counterparties with which it transacts and generally does not require collateral or other security to support financial instruments subject to credit risk. 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 two foreign financial institution counterparties. The Company considers these exposures when measuring its credit reserve on its derivative assets, which was $46 and $18, respectively, at September 30, 2012 and September 30, 2011.

The Company s standard contracts do not contain credit risk related contingencies 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 September 30, 2012 and September 30, 2011, the Company had posted cash collateral of $50 and $418, respectively, related to such liability positions. At September 30, 2012, the Company had no standby letters of credit, compared to posted letters of credit of $2,000 at September 30, 2011, related to such liability positions. The cash collateral is included in Receivables Other within the accompanying Consolidated Statements of Financial Position.

Derivative Financial Instruments

Cash Flow Hedges

The Company has used interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the changes in fair value recorded in AOCI and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or receivables, respectively, and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. At September 30, 2012, the Company did not have any interest rate swaps outstanding. At September 30, 2011, the Company had a portfolio of U.S. dollar-denominated interest rate swaps outstanding which effectively fixed the interest on floating rate debt, exclusive of lender spreads as follows: 2.25% for a notional principal amount of $200,000 through December 2011 and 2.29% for a notional principal amount of $300,000 through January 2012. During Fiscal 2010, in connection with the refinancing of its senior credit facilities, the Company terminated a portfolio of Euro-denominated interest rate swaps at a cash loss of $3,499 which was recognized as an adjustment to interest expense. At September 30, 2012, the Company did not have any unrecognized gains or losses related to interest rate swaps recorded in AOCI. The derivative net loss on the U.S. dollar swap contracts recorded in AOCI by the Company at September 30, 2011 was $879, net of tax benefit of $0. At September 30, 2012, no derivative net losses are estimated to be reclassified from AOCI into earnings by the Company over the next 12 months.

In connection with the Company s merger with Russell Hobbs and the refinancing of the Company s existing senior credit facilities associated with the closing of the Merger, the Company assessed the prospective effectiveness of its interest rate cash flow hedges during Fiscal 2010. As a result, during Fiscal 2010, the Company ceased hedge accounting and recorded a loss of $1,451 as an adjustment to interest expense for the change in fair value of its U.S. dollar swaps from the date of de-designation until the U.S. dollar swaps were re-designated. The Company also evaluated whether the amounts recorded in AOCI associated with the forecasted U.S. dollar swap transactions were probable of not occurring and determined that occurrence of the transactions was still reasonably possible. Upon the refinancing of the existing senior credit facility associated with the closing of the Merger, the Company re-designated the U.S. dollar swaps as cash flow hedges of certain scheduled interest rate payments on the new $750,000 U.S. Dollar Term Loan expiring June 17, 2016.

The Company s interest rate swap derivative financial instruments at September 30, 2012 and September 30, 2011 are summarized as follows:

	2012		2011	
	Notional Amount	Remaining Term	Notional Amount	Remaining Term
Interest rate swaps-fixed	$		$ 200,000	.28 years
Interest rate swaps-fixed	$		$ 300,000	.36 years

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 of product or raw material purchases. Until the sale or purchase is recognized, the fair value of the related hedge is recorded in AOCI and as a derivative hedge asset or liability, as applicable. At the time the sale or purchase is recognized, the fair value of the related hedge is reclassified as an adjustment to Net sales or purchase price variance in Cost of goods sold.

At September 30, 2012 the Company had a series of foreign exchange derivative contracts outstanding through September 2013 with a contract value of $202,453. At September 30, 2011 the Company had a series of foreign exchange derivative contracts outstanding through September 2012 with a contract value of $223,417. The derivative loss on these contracts recorded in AOCI by the Company at September 30, 2012 was $1,409, net of tax benefit of $565. The derivative net gain on these contracts recorded in AOCI by the Company at September 30, 2011 was $238, net of tax expense of $148. At September 30, 2012, the portion of derivative net losses estimated to be reclassified from AOCI into earnings by the Company over the next 12 months is $1,409, 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 September 30, 2012 the Company had a series of such swap contracts outstanding through September 2014 for 15 tons with a contract value of $29,207. At September 30, 2011 the Company had a series of such swap contracts outstanding through December 2012 for 9 tons with a contract value of $18,858. The derivative net gain on these contracts recorded in AOCI by the Company at September 30, 2012 was $1,627, net of tax expense of $320. The derivative net loss on these contracts recorded in AOCI by the Company at September 30, 2011 was $686, net of tax benefit of $121. At September 30, 2012, the portion of derivative net gains estimated to be reclassified from AOCI into earnings by the Company over the next 12 months is $796, 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 economic hedges of a related liability or asset recorded in the accompanying Consolidated Statements of Financial Position. 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 September 30, 2012 and September 30, 2011 the Company had $172,581 and $265,974, respectively, of such foreign exchange derivative notional value contracts outstanding.

(8) Fair Value of Financial Instruments

ASC Topic 820: *Fair Value Measurements and Disclosures* (ASC 820), establishes a 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 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 instrument 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 on a recurring basis using internal models, which are based on market observable inputs including interest rate curves and both forward and spot prices for currencies and commodities.

The Company s net derivative portfolio as of September 30, 2012, contains Level 2 instruments and consists of commodity and foreign exchange contracts. The fair values of these instruments as of September 30, 2012 were as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Commodity contracts, net	$	$ 1,993	$	$ 1,993
Total Assets	$	$ 1,993	$	$ 1,993
Liabilities:				
Foreign exchange contracts, net	$	$ (8,721)	$	$ (8,721)
Total Liabilities	$	$ (8,721)	$	$ (8,721)

The Company s net derivative portfolio as of September 30, 2011, contains Level 2 instruments and consists of commodity, interest rate and foreign exchange contracts. The fair values of these instruments as of September 30, 2011 were as follows:

	Level 1	Level 2	Level 3	Total
Total Assets	$	$	$	$
Liabilities:				
Interest rate contracts	$	$ (1,954)	$	$ (1,954)
Commodity contracts		(958)		(958)
Foreign exchange contracts, net		(22,490)		(22,490)
Total Liabilities	$	$ (25,402)	$	$ (25,402)

The carrying values of cash and cash equivalents, accounts and notes receivable, 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.

The carrying values of goodwill, intangible assets and other long-lived assets are tested annually, or more frequently if an event occurs that indicates an impairment loss may have been incurred, using fair value measurements with unobservable inputs (Level 3). The Company recorded impairment charges related to intangible assets during Fiscal 2011. (See also Note 2(i), 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):

	September 30, 2012		September 30, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Total debt	$ (1,669,300)	$ (1,804,831)	$ (1,551,612)	$ (1,635,528)
Interest rate swap agreements			(1,954)	(1,954)
Commodity swap and option agreements	1,993	1,993	(958)	(958)
Foreign exchange forward agreements	(8,721)	(8,721)	(22,490)	(22,490)

(9) Income Taxes

Income tax expense was calculated based upon the following components of income (loss) from continuing operations before income tax:

	2012	2011	2010
Pretax income (loss):			
United States	$ (66,102)	$ (119,984)	$ (230,262)
Outside the United States	175,059	137,108	106,079
Total pretax income (loss)	$ 108,957	$ 17,124	$ (124,183)

The components of income tax expense are as follows:

	2012	2011	2010
Current:			
Foreign	$ 38,113	$ 32,649	$ 44,481
State	(361)	2,332	2,907
Total current	37,752	34,981	47,388
Deferred:			
Federal	20,884	20,247	22,119
Foreign	5,190	28,054	(6,514)
State	(3,441)	9,013	196
Total deferred	22,633	57,314	15,801
Income tax expense	$ 60,385	$ 92,295	$ 63,189

The following reconciles the total income tax expense, based on the Federal statutory income tax rate of 35%, with the Company s recognized income tax expense:

	2012	2011	2010
Statutory federal income tax expense (benefit)	$ 38,135	$ 5,994	$ (43,464)
Permanent items	8,595	10,607	4,828
Exempt foreign income	(5,760)	(380)	(9)
Foreign statutory rate vs. U.S. statutory rate	(15,211)	(14,132)	(9,601)
State income taxes, net of federal benefit	(2,164)	1,242	(4,979)
Residual tax on foreign earnings	29,844	18,943	6,609
FURminator purchase accounting benefit	(14,511)		
Valuation allowance	26,003	68,615	90,977
Reorganization items			7,553
Unrecognized tax (benefit) expense	(4,386)	(2,793)	3,234
Inflationary adjustments	(803)	(1,472)	3,409
Correction of immaterial prior period error		4,873	5,900
Other, net	643	798	(1,268)
Income tax expense	$ 60,385	$ 92,295	$ 63,189

The tax effects of temporary differences, which give rise to significant portions of the deferred tax assets and deferred tax liabilities, are as follows:

	September 30, 2012	September 30, 2011
Current deferred tax assets:		
Employee benefits	$ 16,399	$ 14,188
Restructuring	8,054	10,682
Inventories and receivables	22,495	21,521
Marketing and promotional accruals	8,270	8,911
Other	14,440	14,742
Valuation allowance	(29,808)	(28,772)
Total current deferred tax assets	39,850	41,272
Current deferred tax liabilities:		
Inventories and receivables	(2,618)	(5,015)
Unrealized gains	(1,153)	(2,382)
Other	(7,936)	(5,705)
Total current deferred tax liabilities	(11,707)	(13,102)
Net current deferred tax assets	$ 28,143	$ 28,170
Noncurrent deferred tax assets:		
Employee benefits	$ 34,927	$ 30,177
Restructuring and purchase accounting	371	2,269
Net operating loss and credit carry forwards	572,857	525,394
Prepaid royalty	7,006	7,346
Property, plant and equipment	3,255	5,240
Unrealized losses	2,521	9,000
Long-term debt	3,976	22,602
Intangibles	4,282	4,749
Other	7,866	5,743
Valuation allowance	(354,992)	(345,121)
Total noncurrent deferred tax assets	282,069	267,399
Noncurrent deferred tax liabilities:		
Property, plant, and equipment	(15,337)	(16,593)
Unrealized gains	(15,803)	(11,619)
Intangibles	(596,199)	(571,454)
Taxes on unremitted foreign earnings	(29,231)	
Other	(2,964)	(5,069)
Total noncurrent deferred tax liabilities	(659,534)	(604,735)
Net noncurrent deferred tax liabilities	$ (377,465)	$ (337,336)
Net current and noncurrent deferred tax liabilities	$ (349,322)	$ (309,166)

Effective October 1, 2012, the Company began recording residual U.S. and foreign taxes on current foreign earnings as a result of its change in position regarding future repatriation and the requirements of ASC 740. To the extent necessary, the Company intends to utilize earnings of foreign subsidiaries generated after September 30, 2011, to support management s plans to voluntarily accelerate pay down of U.S. debt, fund distributions to shareholders, fund U.S. acquisitions, and satisfy ongoing U.S. operational cash flow requirements. As a result, earnings of the Company s non-U.S. subsidiaries after September 30, 2011 are not considered to be permanently reinvested, except in jurisdiction where repatriation is either precluded or restricted by law. Accordingly, the Company is providing residual U.S. and foreign deferred taxes to these earnings to the

extent they cannot be repatriated in a tax-free manner. Accordingly during Fiscal 2012, the Company has provided residual taxes on approximately $97,638 of foreign earnings resulting in an increase in tax expense, net of a corresponding adjustment to the Company s domestic valuation allowance, of approximately $3,278, including $2,465 of expected tax on $76,475 of earnings not yet taxed in the U.S. During Fiscal 2011, the Company recorded residual U.S. and foreign taxes on approximately $39,391 of distributions of foreign earnings resulting in an increase in tax expense, net of a corresponding adjustment to the Company s domestic valuation allowance, of approximately $771. The Fiscal 2011 distributions were primarily non-cash deemed distributions under U.S. tax law. During Fiscal 2010, the Company recorded residual U.S. and foreign taxes on approximately $26,600 of actual and deemed distributions of foreign earnings resulting in an increase in tax expense, net of a corresponding adjustment to the Company s domestic valuation allowance, of approximately $0. The Fiscal 2010 distributions were primarily non-cash deemed distributions under U.S. tax law.

Remaining undistributed earnings of the Company s foreign operations are approximately $415,713 at September 30, 2012, and are intended to remain permanently invested. Accordingly, no residual income taxes have been provided on those earnings at September 30, 2012. If at some future date these earnings cease to be permanently invested, the Company may be subject to U.S. income taxes and foreign withholding and other taxes on such amounts, which cannot be reasonably estimated at this time.

The Company, as of September 30, 2012, has U.S. federal and state net operating loss carryforwards of approximately $1,304,763 and $1,340,761, respectively. These net operating loss carryforwards expire through years ending in 2032. The Company has foreign loss carryforwards of approximately $119,100 which will expire beginning in 2016. Certain of the foreign net operating losses have indefinite carryforward periods. The Company is subject to an annual limitation on the use of its net operating losses that arose prior to its emergence from bankruptcy. The Company has had multiple changes of ownership, as defined under Section 382 of the Internal Revenue Code of 1986, as amended, that subject the Company s U.S. federal and state net operating losses and other tax attributes to certain limitations. The annual limitation is based on a number of factors including the value of the Company s stock (as defined for tax purposes), on the date of the ownership change, its net unrealized built in gain position on that date, the occurrence of realized built in gains in years subsequent to the ownership change, and the effects of subsequent ownership changes (as defined for tax purposes) if any. Due to these limitations, the Company estimates that $301,202 of the total U.S. federal and $385,159 of the state net operating loss would expire unused even if the Company generates sufficient income to otherwise use all its NOLs. In addition, separate return year limitations apply to limit the Company s utilization of the acquired Russell Hobbs U.S. federal and state net operating losses to future income of the Russell Hobbs subgroup. The Company also projects that $110,794 of the total foreign loss carryforwards will expire unused. The Company has provided a full valuation allowance against these deferred tax assets.

A valuation allowance is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of the deferred tax assets depends on the ability of the Company to generate sufficient taxable income of the appropriate character in the future and in the appropriate taxing jurisdictions. As of September 30, 2012 and September 30, 2011, the Company s valuation allowance, established for the tax benefit that may not be realized, totaled approximately $384,800 and $373,893, respectively. As of September 30, 2012 and September 30, 2011, approximately $349,316 and $338,538, respectively, related to U.S. net deferred tax assets, and approximately $35,484 and $35,354, respectively, related to foreign net deferred tax assets. The increase in the valuation allowance for deferred tax assets during Fiscal 2012 totaled approximately $10,907, of which approximately $10,778 related to an increase in the valuation allowance against U.S. net deferred tax assets, and approximately $130 related to an increase in the valuation allowance against foreign net deferred tax assets. As a result of the purchase of FURminator, the Company was able to release $14,511 of U.S. valuation allowance during Fiscal 2012. The release was attributable to $14,511 of net deferred tax liabilities recorded on the FURminator acquisition date balance sheet that offset other U.S. net deferred tax assets. During Fiscal 2011, the Company determined that a valuation allowance was required against deferred tax assets related to net operating losses in Brazil, and thus recorded a $25,877 charge to increase the valuation allowance.

The total amount of unrecognized tax benefits on the Company s Consolidated Statements of Financial Position at September 30, 2012 and September 30, 2011 are $5,877 and $9,013, respectively. If recognized in the future, the entire amount of unrecognized tax benefits will affect the effective tax rate. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of September 30, 2012 and September 30, 2011 the Company had approximately $3,564 and $4,682, respectively, of accrued interest and penalties related to uncertain tax positions. The impact related to interest and penalties on the Consolidated Statement of Operations for Fiscal 2012 was a net decrease to income tax expense of $(1,184). The impact related to interest and penalties on the Consolidated Statement of Operations for Fiscal 2011 was a net decrease to income tax expense of $(1,422). The impact related to interest and penalties on the Consolidated Statement of Operations for Fiscal 2010 was a net increase to income tax expense of $1,527. In connection with the Merger, the Company recorded additional unrecognized tax benefits of approximately $3,299 as part of purchase accounting.

As of September 30, 2012, certain of the Company s legal entities are undergoing income tax audits. The Company cannot predict the ultimate outcome of the examinations; however, it is reasonably possible that during the next 12 months some portion of previously unrecognized tax benefits could be recognized.

The following table summarizes the changes to the amount of unrecognized tax benefits of Company for Fiscal 2012, Fiscal 2011, and Fiscal 2010:

Unrecognized tax benefits at September 30, 2009	$ 7,765
Russell Hobbs acquired unrecognized tax benefits	3,251
Gross decrease tax positions in prior period	(904)
Gross increase tax positions in current period	3,390
Lapse of statutes of limitations	(694)
Unrecognized tax benefits at September 30, 2010	$ 12,808
Gross increase tax positions in prior period	1,658
Gross decrease tax positions in prior period	(823)
Gross increase tax positions in current period	596
Settlements	(1,850)
Lapse of statutes of limitations	(3,376)
Unrecognized tax benefits at September 30, 2011	$ 9,013
Gross increase tax positions in prior period	773
Gross decrease tax positions in prior period	(1,308)
Gross increase tax positions in current period	776
Settlements	(1,737)
Lapse of statutes of limitations	(1,640)
Unrecognized tax benefits at September 30, 2012	$ 5,877

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, 2008 are closed. However, the federal net operating loss carryforwards from the Company s fiscal years ended September 30, 2008 and prior are subject to Internal Revenue Service (IRS) examination until the year that such net operating loss carryforwards are utilized and those years are closed for audit. The Company s fiscal years ended September 30, 2009, 2010, 2011 and 2012 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 year ended June 30, 2008 are closed. However, the federal net operating loss carryforwards for Russell Hobbs fiscal years ended June 30, 2008 and prior are subject to examination by the IRS until the year that such net operating losses are utilized and those years are closed for audit.

During Fiscal 2011 we recorded the correction of an immaterial prior period error in our consolidated financial statements related to the effective state income tax rates for certain U.S. subsidiaries. During Fiscal 2010 we recorded the correction of an immaterial prior period error in our consolidated financial statements related to deferred taxes in certain foreign jurisdictions. We believe the correction of these errors to be both quantitatively and qualitatively immaterial to our annual results for Fiscal 2011, Fiscal 2010 or to the financial statements of any previous period. The impact of the corrections was an increase to income tax expense and an increase to deferred tax liabilities in Fiscal 2011 of approximately $4,873 and an increase to income tax expense and a decrease to deferred tax assets in Fiscal 2010 of approximately $5,900.

(10) Employee Benefit Plans

Pension Benefits

The Company has various defined benefit pension plans covering some of its employees in the United States and certain employees in other countries, primarily the United Kingdom and Germany. 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 40 over the next 10 succeeding years of service, and remain eligible until reaching age 65. The plan is contributory; retiree contributions have been established as a flat dollar amount with contribution rates expected to increase at the active medical trend rate. The plan is unfunded. The Company is amortizing the transition obligation over a 20-year period.

The following tables provide additional information on the Company s pension and other postretirement benefit plans:

	Pension and Deferred Compensation Benefits 2012	Pension and Deferred Compensation Benefits 2011	Other Benefits 2012	Other Benefits 2011
Change in benefit obligation				
Benefit obligation, beginning of year	$ 209,472	$ 214,977	$ 542	$ 527
Service cost	2,048	2,543	12	11
Interest cost	10,593	10,380	27	27
Actuarial (gain) loss	29,834	(9,027)	(14)	(21)
Participant contributions	182	189		
Benefits paid	(9,354)	(8,685)	(1)	(2)
Foreign currency exchange rate changes	(1,969)	(905)		
Benefit obligation, end of year	$ 240,806	$ 209,472	$ 566	$ 542
Change in plan assets				
Fair value of plan assets, beginning of year	$ 130,641	$ 125,566	$	$
Actual return on plan assets	20,112	(100)		
Employer contributions	12,587	14,486	1	2
Employee contributions	182	189		
Benefits paid	(9,354)	(8,685)	(1)	(2)
Plan expenses paid		(226)		
Foreign currency exchange rate changes	(241)	(589)		
Fair value of plan assets, end of year	$ 153,927	$ 130,641	$	$
Accrued Benefit Cost	$ (86,879)	$ (78,831)	$ (566)	$ (542)
Range of assumptions:				
Discount rate	4.0% -13.5%	4.2% - 13.6%	4.0%	5.0%
Expected return on plan assets	4.0% - 7.8%	3.0% - 7.8%	N/A	N/A
Rate of compensation increase	2.3% - 5.5%	0.0% - 5.5%	N/A	N/A

The net underfunded status as of September 30, 2012 and September 30, 2011 of $86,879 and $78,831, respectively, is recognized in the accompanying Consolidated Statements of Financial Position within Employee benefit obligations, net of current portion. Included in the Company s AOCI as of September 30, 2012 and September 30, 2011 are unrecognized net losses of $33,428, net of tax benefit of $4,392 and $21,496, net of tax benefit of $1,542, respectively, which have not yet been recognized as components of net periodic pension cost. The net loss in AOCI expected to be recognized during Fiscal 2013 is $2,084.

At September 30, 2012, the Company s total pension and deferred compensation benefit obligation of $240,806 consisted of $75,580 associated with U.S. plans and $165,226 associated with international plans. The fair value of the Company s pension and deferred compensation benefit assets of $153,927 consisted of $51,721 associated with U.S. plans and $102,206 associated with international plans. The weighted average discount rate used for the Company s domestic plans was approximately 4.3% and approximately 5.3% for its international plans. The weighted average expected return on plan assets used for the Company s domestic plans was approximately 7.8% and approximately 5.4% for its international plans.

At September 30, 2011, the Company s total pension and deferred compensation benefit obligation of $209,472 consisted of $67,611 associated with U.S. plans and $141,861 associated with international plans. The fair value of the Company s pension and deferred compensation benefit assets of $130,641 consisted of $43,582 associated with U.S. plans and $87,059 associated with international plans. The weighted average discount rate used for the Company s domestic plans was approximately 5.0% and approximately 4.9% for its international plans. The weighted average expected return on plan assets used for the Company s domestic plans was approximately 7.6% and approximately 5.4% for its international plans.

	Pension and Deferred Compensation Benefits					
	2012	2011	2010	2012	2011	2010
Components of net periodic benefit cost						
Service cost	$ 2,048	$ 2,543	$ 2,479	$ 12	$ 11	$ 9
Interest cost	10,593	10,380	8,239	27	27	26
Expected return on assets	(8,225)	(7,829)	(5,774)			
Amortization of prior service cost	72		535			
Amortization of transition obligation			207			
Recognized net actuarial (gain) loss	828	8	613	(54)	(52)	(58)
Net periodic cost (benefit)	$ 5,316	$ 5,102	$ 6,299	$ (15)	$ (14)	$ (23)

The discount rate is used to calculate the projected benefit obligation. The discount rate used is based on the rate of return on government bonds as well as current market conditions of the respective countries where such plans are established.

Below is a summary allocation of all pension plan assets as of the measurement date.

	Weighted Average Allocation		
	Target	Actual	
Asset Category	**2012**	**2012**	**2011**
Equity Securities	0 -60%	49%	46%
Fixed Income Securities	0 -40%	20%	21%
Other	0 -100%	31%	33%
Total	100%	100%	100%

The weighted average expected long-term rate of return on total assets is 6.2%.

The Company has established formal investment policies for the assets associated with these plans. Policy objectives include maximizing long-term return at acceptable risk levels, diversifying among asset classes, if appropriate, and among investment managers, as well as establishing relevant risk parameters within each asset class. Specific asset class targets are based on the results of periodic asset/liability studies. The investment policies permit variances from the targets within certain parameters. The weighted average expected long-term rate of return is based on a Fiscal 2012 review of such rates. The plan assets currently do not include holdings of SB Holdings common stock.

The following table sets forth the fair value of the Company s pension plan assets as of September 30, 2012 segregated by level within the fair value hierarchy. See Note 8, 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	$ 20,520	$ 16,667	$	$ 37,187
Common collective trust fixed income		14,534		14,534
Total U.S. Defined Benefit Plan Assets	$ 20,520	$ 31,201	$	$ 51,721
International Defined Benefit Plan Assets:				
Common collective trust equity	$	$ 38,507	$	$ 38,507
Common collective trust fixed income		15,661		15,661
Insurance contracts general fund		40,651		40,651
Other		7,387		7,387
Total International Defined Benefit Plan Assets	$	$ 102,206	$	$ 102,206

The Company s Fixed Income Securities portfolio is invested primarily in commingled funds and managed for overall return expectations rather than matching duration against plan liabilities; therefore, debt maturities are not significant to the plan performance.

The Company s Other portfolio consists of all pension assets, primarily insurance contracts, in the United Kingdom, Germany and the Netherlands.

The Company s expected future pension benefit payments for Fiscal 2013 through its fiscal year 2022 are as follows:

2013	$ 9,697
2014	8,783
2015	9,122
2016	9,492
2017	9,775
2018-2022	56,072

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. The Company also sponsors defined contribution pension plans for employees of certain foreign subsidiaries. Company contributions charged to operations, including discretionary amounts, for Fiscal 2012, Fiscal 2011 and Fiscal 2010 were $1,935, $4,999 and $3,464, respectively.

(11) Segment Information

The Company manages 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, impairment charges, reorganization items expense, net, interest expense, interest income and income tax expense. Expenses associated with certain general and administrative functions necessary to reflect the operating segments on a standalone basis have also been excluded in the determination of reportable segment profits. Corporate expenses primarily include general and administrative expenses and the costs of 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.

Segment information for the Company for Fiscal 2012, Fiscal 2011 and Fiscal 2010, is as follows:

Net sales to external customers

	2012	2011	2010
Global Batteries & Appliances	$ 2,249,939	$ 2,254,153	$ 1,658,123
Global Pet Supplies	615,508	578,905	566,335
Home and Garden Business	386,988	353,858	342,553
Total segments	$ 3,252,435	$ 3,186,916	$ 2,567,011

Depreciation and amortization

	2012	2011	2010
Global Batteries & Appliances	$ 63,618	$ 68,084	$ 57,557
Global Pet Supplies	27,702	24,274	28,538
Home and Garden Business	13,296	12,375	14,418
Total segments	104,616	104,733	100,513
Corporate	29,164	30,416	16,905
Total Depreciation and amortization	$ 133,780	$ 135,149	$ 117,418

Segment profit

	2012	2011	2010
Global Batteries & Appliances	$ 244,442	$ 238,864	$ 171,298
Global Pet Supplies	85,866	75,564	57,675
Home and Garden Business	73,609	65,180	51,192
Total segments	403,917	379,608	280,165
Corporate expenses	51,514	53,967	48,817
Acquisition and integration related charges	31,066	36,603	38,452
Restructuring and related charges	19,591	28,644	24,118
Intangible asset impairment		32,450	
Interest expense	191,911	208,329	277,015
Other expense, net	878	2,491	12,300

Income (loss) from continuing operations before reorganization items and income taxes	$ 108,957	$ 17,124	$ (120,537)

The Global Batteries & Appliances segment does business in Venezuela through a Venezuelan subsidiary. At January 4, 2010, the beginning of the Company s second quarter of Fiscal 2010, the Company determined that Venezuela met the definition of a highly inflationary economy under GAAP. As a result, beginning January 4, 2010, the U.S. dollar is the functional currency for the Company s Venezuelan subsidiary. Accordingly, subsequent to January 4, 2010, currency remeasurement adjustments for this subsidiary s financial statements and other transactional foreign exchange gains and losses are reflected in earnings. Through January 3, 2010, prior to being designated as highly inflationary, translation adjustments related to the Venezuelan subsidiary were reflected in Shareholders equity as a component of AOCI.

In addition, on January 8, 2010, the Venezuelan government announced its intention to devalue its currency, the Bolivar fuerte, relative to the U.S. dollar. As a result, the Company remeasured the local statement of financial position of its Venezuela entity during the second quarter of Fiscal 2010 to reflect the impact of the devaluation to the official exchange rate of 4.3 Bolivar fuerte per U.S. dollar. Based on actual exchange activity as of September 30, 2010, the Company determined that the most likely method of exchanging its Bolivar fuertes for U.S. dollars would be to formally apply with the Venezuelan government to exchange through commercial banks at the SITME rate specified by the Central Bank of Venezuela. The SITME rate as of September 30, 2010 was quoted at 5.3 Bolivar fuerte per U.S. dollar. Therefore, the Company changed the rate used to remeasure Bolivar fuerte denominated transactions as of September 30, 2010 from the official exchange rate to the 5.3 SITME rate in accordance with ASC Topic 830: Foreign Currency Matters (ASC 830) as it was the expected rate at which exchanges of Bolivar fuerte to U.S. dollars would be settled.

The designation of the Company s Venezuela entity as a highly inflationary economy and the devaluation of the Bolivar fuerte resulted in a $1,486 reduction to the Company s operating income during Fiscal 2010. The Company also reported a foreign exchange loss in Other expense, net, of $10,102 during Fiscal 2010 related to Bolivar fuerte denominated transactions.

As of September 30, 2011, the Company no longer exchanged its Bolivar fuertes for U.S. dollars through the SITME mechanism as the SITME was no longer the most likely method of exchanging its Bolivar fuertes for U.S. dollars. Therefore, the Company changed the rate used to remeasure Bolivar fuerte denominated transactions as of September 30, 2011 from the 5.3 SITME rate to the 4.3 official exchange rate in accordance with ASC 830, as it is the expected exchange rate of Bolivar fuertes to U.S. dollars. The Company reported a foreign exchange gain in Other expense, net, of $(1,293) during Fiscal 2011 related to the change to the official exchange rate.

Segment total assets

	September 30,	
	2012	**2011**
Global Batteries & Appliances	$ 2,243,472	$ 2,275,076
Global Pet Supplies	956,043	828,202
Home and Garden Business	508,083	476,381
Total segments	3,707,598	3,579,659
Corporate	44,051	47,047
Total assets at year end	$ 3,751,649	$ 3,626,706

Segment long-lived assets (A)

	September 30, 2012	September 30, 2011
Global Batteries & Appliances	$ 1,434,392	$ 1,468,617
Global Pet Supplies	768,140	647,953
Home and Garden Business	445,774	417,078
Total segments	2,648,306	2,533,648
Corporate	41,916	44,770
Long-lived assets at year end	$ 2,690,222	$ 2,578,418

(A) Includes all of the Company s non-current assets.

Capital expenditures

	2012	2011	2010
Global Batteries & Appliances	$ 36,271	$ 25,471	$ 28,496
Global Pet Supplies	7,447	7,059	7,920
Home and Garden Business	3,091	3,630	3,890
Total segments	46,809	36,160	40,306
Corporate			10
Total Capital expenditures	$ 46,809	$ 36,160	$ 40,316

Geographic Disclosures Net sales to external customers

	2012	2011	2010
United States	$ 1,772,138	$ 1,780,127	$ 1,444,779
Outside the United States	1,480,297	1,406,789	1,122,232
Total net sales to external customers	$ 3,252,435	$ 3,186,916	$ 2,567,011

Geographic Disclosures Long-lived assets (A)

	September 30, 2012	September 30, 2011
United States	$ 1,988,632	$ 1,843,869
Outside the United States	701,590	734,549
Long-lived assets at year end	$ 2,690,222	$ 2,578,418

(A) Includes all of the Company s non-current assets.

(12) 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 $5,432, 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.

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 of these other matters or proceedings presently pending will have a material adverse effect on its results of operations, financial condition, liquidity or cash flows.

The Company s minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease. Future minimum rental commitments under non-cancelable operating leases, principally pertaining to land, buildings and equipment, are as follows:

2013	$ 32,623
2014	27,731
2015	22,296
2016	21,549
2017	16,823
Thereafter	43,199
Total minimum lease payments	$ 164,221

All of the leases expire between October 2012 and July 2023. The Company s total rent expense was $34,327, $40,298 and $30,218 during Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively.

(13) 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 Harbinger Capital Partners Master Fund I, Ltd., Harbinger Capital Partners Special Situations Fund, L.P. and Global Opportunities Breakaway Ltd. (together 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 (such transaction, the Share Exchange), pursuant to a Contribution and Exchange Agreement (the Exchange Agreement). Immediately following the Share Exchange, (i) HRG owned approximately 54.4% of the outstanding shares of SB Holding s common stock and the Harbinger Parties owned approximately 12.7% of the outstanding shares of SB Holdings common stock, and (ii) the Harbinger Parties owned 129,860 shares of HRG common stock, or approximately 93.3% of the outstanding HRG common stock.

On June 28, 2011 the Company filed a Form S-3 registration statement with the SEC under which 1,150 shares of its common stock and 6,320 shares of the Company s common stock held by Harbinger Capital Partners Master Fund I, Ltd. were offered to the public.

In November 2011, HRG announced a stock purchase program for the Company s common stock, with an authorization of $30,000 under the program. This purchase program was completed in March 2012. Following the completion of the secondary offering of the Company s common stock in August 2011 by Harbinger Capital Partners Master Fund I, Ltd. and the completion of the HRG stock purchase program for the Company s common stock noted above, HRG owned approximately 57% of the Company s common stock, and the Harbinger Parties owned less than 1 percent of the Company s common stock.

In August 2012, HRG announced a share repurchase program of up to 1,000 shares of the Company s 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 and their affiliates beneficially own 40% or more of the outstanding voting securities of SB Holdings, the Harbinger Parties and the Company will cooperate to ensure, to the greatest extent possible, the continuation of 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.

Pursuant to a joinder to the Stockholder Agreement entered into by the Harbinger Parties and HRG, upon consummation of the Share Exchange, HRG became a party to the Stockholder Agreement, and is 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 Merger, the Harbinger 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 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 became a party to the SB Holdings Registration Rights Agreement, entitled to the rights and subject to the obligations of a holder thereunder.

Other Agreements

In connection with the Merger, 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 Merger. 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 became payable after the consummation of the Merger and that related to the litigation arising out of Russell Hobbs business combination transaction with Applica. In February 2011, the parties to the litigation reached a full and final settlement of their disputes. Neither the Company, Applica or any other subsidiary of the Company was required to make any payments in connection with the settlement.

(14) 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, compensation and related costs associated with manufacturing employees, asset impairments relating to manufacturing initiatives, and other costs directly related to the restructuring or integration initiatives implemented.

The Company reports restructuring and related charges relating to administrative functions in Operating expenses, such as initiatives impacting sales, marketing, distribution, or other non-manufacturing 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.

The following table summarizes restructuring and related charges incurred by segment:

	2012	2011	2010
Cost of goods sold:			
Global Batteries & Appliances	$ 5,094	$ 756	$ 3,275
Global Pet Supplies	4,741	7,085	3,837
Home and Garden Business			38
Total restructuring and related charges in cost of goods sold	$ 9,835	$ 7,841	$ 7,150
Operating expense:			
Global Batteries & Appliances	$ 2,487	$ 5,338	$ 251
Global Pet Supplies	5,395	9,567	2,917
Home and Garden Business	912	2,704	8,419
Corporate	962	3,194	5,381
Total restructuring and related charges in operating expense	$ 9,756	$ 20,803	$ 16,968
Total restructuring and related charges	$ 19,591	$ 28,644	$ 24,118

The following table summarizes restructuring and related charges incurred by type of charge:

	2012	2011	2010
Costs included in cost of goods sold:			
Global Cost Reduction initiatives:			
Termination benefits	$ 2,941	$ 1,679	$ 2,630
Other associated costs	6,894	5,889	2,273
Other restructuring initiatives:			
Termination benefits			201
Other associated costs		273	2,046
Total included in cost of goods sold	$ 9,835	$ 7,841	$ 7,150
Costs included in operating expenses:			
Global Cost Reduction initiatives:			
Termination benefits	$ 3,079	$ 10,155	$ 4,268
Other associated costs	5,776	7,761	9,272
Other restructuring initiatives:			
Termination benefits		956	5,269
Other associated costs	901	1,931	(1,841)
Total included in operating expenses	$ 9,756	$ 20,803	$ 16,968
Total restructuring and related charges	$ 19,591	$ 28,644	$ 24,118

Global Cost Reduction Initiatives Summary

During the fiscal year ended September 30, 2009, 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, and to evaluate opportunities to improve the Company s capital structure (the Global Cost Reduction Initiatives). These initiatives included headcount reductions and the exit of certain facilities within each of the Company s segments. These initiatives also included consultation, legal and accounting fees related to the evaluation of the Company s capital structure. Costs associated with these initiatives, which are expected to be incurred through January 31, 2015, are projected to total approximately $88,700.

The Company recorded $18,690, $25,484 and $18,443 of pretax restructuring and related charges during Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively, related to the Global Cost Reduction Initiatives.

The following table summarizes the remaining accrual balance associated with the Global Cost Reduction Initiatives and activity that occurred during Fiscal 2012:

	Termination Benefits	Other Costs	Total
Accrual balance at September 30, 2011	$ 8,795	$ 3,021	$ 11,816
Provisions	2,095	(169)	1,926
Cash expenditures	(7,765)	(1,353)	(9,118)
Non-cash items	127	(404)	(277)
Accrual balance at September 30, 2012	$ 3,252	$ 1,095	$ 4,347
Expensed as incurred [(A)]	$ 3,926	$ 12,838	$ 16,764

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

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The following table summarizes the expenses incurred by the Company during Fiscal 2012, the cumulative amount incurred from inception of the initiative through September 30, 2012 and the total future costs expected to be incurred associated with the Global Cost Reduction Initiatives by operating segment:

	Global Batteries and Appliances	Global Pet Supplies	Home and Garden	Corporate	Total
Restructuring and related charges incurred during Fiscal 2012	$ 7,642	$ 10,136	$ 912	$	$ 18,690
Restructuring and related charges incurred since initiative inception	$ 20,809	$ 36,998	$ 17,620	$ 7,591	$ 83,018
Total future estimated restructuring and related charges expected to be incurred	$ 1,501	$ 2,575	$ 1,521	$	$ 5,597

In connection with other restructuring efforts, the Company recorded $901, $3,160 and $5,675 of pretax restructuring and related charges during Fiscal 2012, Fiscal 2011 and Fiscal 2010, respectively.

(15) Acquisitions

In accordance with ASC Topic 805, *Business Combinations* (ASC 805), the Company accounts for acquisitions by applying the acquisition method of accounting. The acquisition method of accounting requires, among other things, that the assets acquired and liabilities assumed in a business combination be measured at their fair values as of the closing date of the acquisition.

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. Russell Hobbs is a designer, marketer and distributor of a broad 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 Consolidated Statements of Operations. 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.

Supplemental Pro Forma Information (Unaudited)

The following reflects the Company s pro forma results had the results of Russell Hobbs been included for the entirety of Fiscal 2010.

	2010
Net sales:	
Reported Net sales	$ 2,567,011
Russell Hobbs adjustment	543,952
Pro forma Net sales	$ 3,110,963
Loss from continuing operations:	
Reported loss from continuing operations	$ (187,372)
Russell Hobbs adjustment	(5,504)
Pro forma loss from continuing operations	$ (192,876)
Basic and diluted earnings per share from continuing operations (A) :	
Reported basic and diluted loss per share from continuing operations	$ (5.20)
Russell Hobbs adjustment	(0.16)
Pro forma basic and diluted loss per share from continuing operations	$ (5.36)

(A) The Company has not assumed the exercise of common stock equivalents as the impact would be antidilutive.

Black Flag

On October 31, 2011, the Company completed the $43,750 cash acquisition of the Black Flag and TAT trade names from The Homax Group, Inc. (Black Flag), a portfolio company of Olympus Partners. The Black Flag and TAT product lines consist of liquids, aerosols, baits and traps that control ants, spiders, wasps, bedbugs, fleas, flies, roaches, yellow jackets and other insects. This acquisition was not significant individually.

The results of Black Flag s operations since October 31, 2011 are included in the Company s Consolidated Statements of Operations and are reported as part of the Home and Garden Business segment.

Acquisition Accounting

The assets acquired and liabilities assumed in the Black Flag acquisition have been measured at their fair values at October 31, 2011 as set forth below. The excess of the purchase price over the fair values of the net tangible assets and identifiable intangible assets was recorded as goodwill. The amounts recorded in connection with the acquisition of Black Flag are as follows:

Inventory	$ 2,509
Property, plant and equipment	301
Intangible assets	25,000
Goodwill	15,852
Other assets	88
Total consideration	$ 43,750

The Company performed a valuation of the acquired assets of Black Flag at October 31, 2011. Significant matters related to the determination of the fair values of the acquired identifiable intangible assets are summarized as follows:

Certain indefinite-lived intangible assets were valued using a relief from royalty methodology. Customer relationships and certain definite-lived intangible assets were valued using a multi-period excess earnings method. The total fair value of indefinite and definite lived intangibles was $25,000 as of October 31, 2011. A summary of the significant key inputs is 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 95%, which was supported by historical retention rates. Income taxes were estimated at 40% and amounts were discounted using a rate of 13.5%. The customer relationships were valued at $17,000 under this approach and will be amortized over 20 years.

The Company valued trade names 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 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 were in the range of 2%-4% of expected net sales related to the respective trade name. The Company anticipates using the trade names for an indefinite period as demonstrated by the sustained use of each subject trademark. In estimating the fair value of the trade names, net sales for the trade names were estimated to grow at a rate of (15)%-8% annually with a terminal year growth rate of 3%. Income taxes were estimated at 40% and amounts were discounted using a rate of 13.5%. Trade names were valued at $8,000 under this approach.

The Company s estimates and assumptions for Black Flag are subject to change as the Company obtains additional information for its estimates during the measurement period. The primary areas of acquisition accounting that are not yet finalized relate to certain legal matters and residual goodwill.

FURminator

On December 22, 2011, the Company completed the $141,745 cash acquisition of FURminator, Inc. from HKW Capital Partners III, L.P. (FURminator). FURminator is a leading worldwide provider of branded and patented pet deshedding products. This acquisition was not significant individually.

The results of FURminator operations since December 22, 2011 are included in the Company s Consolidated Statements of Operations and are reported as part of the Global Pet Supplies business segment.

Acquisition Accounting

The assets acquired and liabilities assumed in the FURminator acquisition have been measured at their fair values at December 22, 2011 as set forth below. The excess of the purchase price over the fair values of the net tangible assets and identifiable intangible assets was recorded as goodwill. The amounts recorded in connection with the acquisition of FURminator are as follows:

Current assets	$ 9,240
Property, plant and equipment	648
Intangible assets	79,000
Goodwill	68,531
Total assets acquired	$ 157,419
Current liabilities	758
Long-term liabilities	14,916
Total liabilities assumed	$ 15,674
Total consideration	$ 141,745

The Company performed a valuation of the assets and liabilities of FURminator at December 22, 2011. Significant matters related to the determination of the fair values of the acquired identifiable intangible assets are summarized as follows:

Certain indefinite-lived intangible assets were valued using a relief from royalty methodology. Customer relationships and certain definite-lived intangible assets were valued using a multi-period excess earnings method. The total fair value of indefinite and definite lived intangibles was $79,000 as of December 22, 2011. A summary of the significant key inputs is 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 95%, which was supported by historical retention rates. Income taxes were estimated at 40% and amounts were discounted using a rate of 14%. The customer relationships were valued at $46,000 under this approach and will be amortized over 20 years.

The Company valued trade names 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 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 were in the range of 4%-5% of expected net sales related to the respective trade name. The Company anticipates using the trade names for an indefinite period as demonstrated by the sustained use of each subject trade name. In estimating the fair value of the trade names, net sales for the trade names were estimated to grow at a rate of 2%-12% annually with a terminal year growth rate of 3%. Income taxes were estimated at 40% and amounts were discounted using a rate of 14%. Trade names were valued at $14,000 under this approach.

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 used in the

determination of the fair values of technologies were 10%-12% 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, which is approximately 9 years. In estimating the fair value of the technologies, net sales were estimated to grow at a rate of 2%-12% annually. Income taxes were estimated at 40% and amounts were discounted using a rate of 14%. The technology assets were valued at $19,000 under this approach.

The Company s estimates and assumptions for FURminator are subject to change as the Company obtains additional information for its estimates during the measurement period. The primary areas of acquisition accounting that are not yet finalized relate to certain legal matters, income and non-income based taxes and residual goodwill.

(16) New Accounting Pronouncements

Fair Value Measurement

In May 2011, the Financial Accounting Standards Board (the FASB) issued amended accounting guidance to achieve a consistent definition of and common requirements for measurement of and disclosure concerning fair value between GAAP and International Financial Reporting Standards. This amended guidance was effective for the Company beginning in the second quarter of its fiscal year ended September 30, 2012. The new accounting guidance did not have a material effect on the Company s consolidated financial statements.

Presentation of Comprehensive Income

In June 2011, the FASB issued new accounting guidance which requires entities to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive, statements of net income and other comprehensive income. This accounting guidance is effective for the Company for the fiscal year beginning October 1, 2012. Early adoption is permitted. The Company is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

Impairment Testing

During September 2011, the FASB issued new accounting guidance intended to simplify how an entity tests goodwill for impairment. The guidance will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity will no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting guidance is effective for the Company for the annual and any interim goodwill impairment tests performed for the fiscal year beginning October 1, 2012. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a significant impact on its consolidated financial statements.

Additionally, in July 2012, the FASB issued new accounting guidance intended to simplify how an entity tests indefinite-lived intangible assets for impairment. The guidance will allow an entity to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. An entity will no longer be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This accounting guidance is effective for the Company for the annual and any interim indefinite-lived intangible asset impairment tests performed for the fiscal year beginning October 1, 2012. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a significant impact on its consolidated financial statements.

(17) Subsequent Events

ASC 855, Subsequent Events, (ASC 855), establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 requires the Company to evaluate events that occur after the balance sheet date through the date the Company s financial statements are issued, and to determine whether adjustments to or additional disclosures in the financial statements are necessary. The Company has evaluated subsequent events through the date these financial statements were issued.

Hardware Acquisition and Acquisition Financing

On October 8, 2012, the Company entered into an agreement (the Acquisition Agreement) with Stanley Black & Decker to acquire the HHI Business currently operated by Stanley Black & Decker and certain of its subsidiaries for $1,400,000, consisting of (i) the equity interests of certain subsidiaries of Stanley Black & Decker engaged in the business and (ii) certain assets of Stanley Black & Decker used or held for use in connection with the business. The acquisition, when completed, includes (i) the purchase of shares and assets of certain subsidiaries of Stanley Black & Decker involved in the HHI Business and (ii) the purchase of certain assets of TLM Taiwan, which is involved in the production of residential locksets.

The Acquisition Agreement contains certain termination rights for each of Stanley Black & Decker and the Company that upon termination of the Acquisition Agreement under specified circumstances, requires the Company to pay Stanley Black & Decker a termination fee of up to $78,000.

The Company will account for the acquisition in accordance with ASC 805 which requires, among other things, that the assets acquired and liabilities assumed in a business combination be measured at their fair values as of the closing date of the acquisition.

On November 16, 2012, the Company issued at par $520,000 aggregate principal amount of 6.375% Senior Notes due 2020 (the 2020 Notes) and $570,000 aggregate principal amount of 6.625% Senior Notes due 2022 (the 2022 Notes and together with the 2020 Notes, the Notes). Spectrum Brands will assume and unconditionally guarantee, together with certain of its subsidiaries, the obligations under the Notes and intends to use the proceeds of the Notes to fund a portion of the Hardware Acquisition purchase price and related fees and expenses.

Additionally, Spectrum Brands has obtained debt financing commitments for approximately $1,840,000, inclusive of the Notes, to fund the Hardware Acquisition and refinance a portion of Spectrum Brands indebtedness outstanding as of September 30, 2012.

Shaser Acquisition

On November 8, 2012, the Company completed a $50,000 cash acquisition of an approximately 56% interest in Shaser Biosciences, Inc. (Shaser), together with terms relating to a potential buyout of the remaining minority interest in Shaser. The Company will account for the acquisition in accordance with ASC 805. The Company is in the process of completing the preliminary purchase accounting.

(18) Quarterly Results (unaudited)

Fiscal 2012:

	Quarter Ended			
	September 30, 2012	**July 1, 2012**	**April 1, 2012**	**January 1, 2012**
Net sales	$ 832,576	$ 824,803	$ 746,285	$ 848,771
Gross profit	279,925	291,696	260,031	284,026
Net income (loss)	5,513	58,649	(28,660)	13,070
Basic net income (loss) per common share	$ 0.11	$ 1.14	$ (0.56)	$ 0.25
Diluted net income (loss) per common share	$ 0.10	$ 1.13	$ (0.56)	$ 0.25

Fiscal 2011:

	Quarter Ended			
	September 30, 2011	**July 3, 2011**	**April 3, 2011**	**January 2, 2011**
Net sales	$ 827,329	$ 804,635	$ 693,885	$ 861,067
Gross profit	280,495	293,694	255,439	299,239
Net (loss) income	(33,831)	28,604	(50,186)	(19,758)
Basic net (loss) income per common share	$ (0.65)	$ 0.56	$ (0.99)	$ (0.39)
Diluted net (loss) income per common share	$ (0.65)	$ 0.56	$ (0.99)	$ (0.39)

SPECTRUM BRANDS, INC. AND SUBSIDIARIES

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

For the years ended September 30, 2012, September 30, 2011 and September 30, 2010

(In thousands)

Column A	Column B	Column C Additions	Column D Deductions		Column E
Descriptions	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Other Adjustments(A)	Balance at End of Period
September 30, 2012:					
Accounts receivable allowances	$ 14,128	$ 7,742	$	$	$ 21,870
September 30, 2011:					
Accounts receivable allowances	$ 4,351	$ 9,777	$	$	$ 14,128
September 30, 2010:					
Accounts receivable allowances	$ 1,011	$ 3,340	$	$	$ 4,351

2. HARBINGER F&G, LLC AND SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditors Report

The Board of Directors

Harbinger F&G, LLC:

We have audited the accompanying consolidated balance sheets of Harbinger F&G, LLC (the Company) and subsidiaries as of September 30, 2012 and 2011, and the related consolidated statements of operations, member s equity and comprehensive income, and cash flows for the years then ended. In connection with our audits of the consolidated financial statements, we also have audited the accompanying financial statement schedules I to IV. These consolidated financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Harbinger F&G, LLC and subsidiaries as of September 30, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Baltimore, Maryland

November 27, 2012

HARBINGER F&G, LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 30, 2012	September 30, 2011
ASSETS		
Investments (Notes 4 and 5):		
Fixed maturity securities, available-for-sale, at fair value	$ 16,088,913	$ 15,367,474
Equity securities, available-for-sale, at fair value	248,087	287,043
Derivative investments	200,667	52,335
Other invested assets	18,814	44,279
Total investments	16,556,481	15,751,131
Related party loans and investment (Note 16)	182,069	
Cash and cash equivalents	1,054,588	820,903
Contingent purchase price reduction receivable (Note 18)	41,000	
Accrued investment income	191,577	212,848
Reinsurance recoverable (Note 15)	2,363,083	1,612,036
Intangibles, net (Note 7)	273,543	457,167
Deferred tax assets (Note 13)	279,636	207,729
Other assets	48,371	346,322
Total assets	$ 20,990,348	$ 19,408,136
LIABILITIES AND MEMBER S EQUITY		
Contractholder funds (Note 2)	$ 15,290,475	$ 14,549,970
Future policy benefits (Note 2)	3,614,788	3,598,208
Liability for policy and contract claims	91,082	56,650
Note payable (Note 9)		95,000
Other liabilities (Note 8)	703,222	432,907
Total liabilities	19,699,567	18,732,735
Member s equity (Note 10)		
Contributed capital	415,576	379,359
Retained earnings	440,723	136,549
Accumulated other comprehensive income	434,482	159,493
Total member s equity	1,290,781	675,401
Total liabilities and member s equity	$ 20,990,348	$ 19,408,136

See accompanying notes to consolidated financial statements.

HARBINGER F&G, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

	Year Ended September 30, 2012	2011
Revenues:		
Premiums	$ 55,297	$ 39,002
Net investment income (Note 4)	716,271	369,840
Net investment gains (losses) (Note 4)	410,000	(166,891)
Insurance and investment product fees and other	40,251	48,915
Total revenues	1,221,819	290,866
Benefits and expenses:		
Benefits and other changes in policy reserves	777,372	247,632
Acquisition and operating expenses, net of deferrals	123,920	95,778
Amortization of intangibles (Note 7)	160,656	(11,115)
Total benefits and expenses	1,061,948	332,295
Operating income (loss)	159,871	(41,429)
Interest expense	(2,556)	(1,926)
Bargain purchase gain from business acquisition (Note 18)		158,341
Gain on contingent purchase price reduction (Note 18)	41,000	
Other income, net	201	31
Income before income taxes	198,516	115,017
Income tax benefit (Note 13)	145,658	41,744
Net income	$ 344,174	$ 156,761
Supplemental disclosures:		
Total other-than-temporary impairments	$ (24,336)	$ (17,466)
Less non-credit portion of other-than-temporary impairments included other comprehensive income	(1,529)	500
Net other-than-temporary impairments	(22,807)	(17,966)
Gains (losses) on derivative instruments	146,052	(170,752)
Other realized investment gains	286,755	21,827
Total net investment gains (losses)	$ 410,000	$ (166,891)

See accompanying notes to consolidated financial statements.

HARBINGER F&G, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF MEMBER S EQUITY AND COMPREHENSIVE INCOME

(In thousands)

	Contributed Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total Member s Equity
Balances at October 1, 2010	$ 491	$ (212)	$	$ 279
Net income		156,761		156,761
Unrealized investment gains, net			159,302	159,302
Non-credit related other-than-temporary impaiments			191	191
Comprehensive income				316,533
Capital contributions from Harbinger Group Inc.	377,152			377,152
Capital contributions from Harbinger Capital Partners Master Fund I, Ltd. to Front Street Re, Ltd.	1,716			1,716
Dividend		(20,000)		(20,000)
Balances at September 30, 2011	$ 379,359	$ 136,549	$ 159,493	$ 675,401
Net income		344,174		344,174
Unrealized investment gains, net			275,602	275,602
Non-credit related other-than-temporary impaiments			(613)	(613)
Comprehensive income				619,163
Stock compensation	163			163
Capital contributions from Harbinger Group Inc.	36,054			36,054
Dividends		(40,000)		(40,000)
Balances at September 30, 2012	$ 415,576	$ 440,723	$ 434,482	$ 1,290,781

See accompanying notes to consolidated financial statements.

HARBINGER F&G, LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended September 30, 2012	2011
Cash flows from operating activities:		
Net income	$ 344,174	$ 156,761
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Bargain purchase gain from business acquisition		(158,341)
Gain on contingent purchase price reduction	(41,000)	
Net recognized gains (losses) on investments	(410,000)	166,891
Amortization of intangibles	160,656	(11,115)
Depreciation of properties	2,846	1,685
Stock-based compensation	163	
Amortization of fixed maturity discounts and premiums	86,943	59,937
Deferred income taxes	(220,047)	(40,869)
Deferred policy acquisition costs	(194,900)	(41,152)
Interest credited/index credits to contractholder account balances	586,814	140,004
Collateral returned (posted)	49,339	(148,420)
Charges assessed to contractholders for mortality and administration	(14,932)	(28,358)
Cash transferred to reinsurers	(176,770)	(52,585)
Changes in operating assets and liabilities:		
Reinsurance recoverable	(89,078)	(39,446)
Accrued investment income	15,224	1,674
Future policy benefits	16,580	(6,337)
Liability for policy and contract claims	34,432	(3,750)
Other operating	149,581	(21,987)
Net cash provided by (used in) operating activities	300,025	(25,408)
Cash flows from investing activities:		
Cash acquired of $1,040,470 in 2011, net of acquisition cost of $345,000		695,470
Proceeds from investments, sold, matured or repaid:		
Fixed maturities	5,723,266	1,468,427
Equity securities	110,157	13,768
Derivative investments and other invested assets	157,563	86,437
Cost of investments acquired:		
Fixed maturities	(5,583,495)	(1,285,951)
Equity securities	(56,595)	
Derivative investments and other invested assets	(141,603)	(66,905)
Related party loans and investments	(150,069)	
Capital expenditures	(6,209)	(1,745)
Other investing activities, net		(6,642)
Net cash provided by investing activities	53,015	902,859
Cash flows from financing activities:		
Contractholder account deposits	2,040,512	494,956
Contractholder account withdrawals	(1,979,558)	(959,961)
Cash capital contributions	4,030	378,868
Settlement of note payable	(95,000)	
Advances from (repayment to) Harbinger Group Inc.	(49,339)	49,339
Dividends paid	(40,000)	(20,000)
Net cash used in financing activities	(119,355)	(56,798)
Net increase in cash and cash equivalents	233,685	820,653
Cash and cash equivalents at beginning of year	820,903	250

Cash and cash equivalents at end of year	$ 1,054,588	$ 820,903
Supplemental disclosures of cash flow information:		
Interest paid	$ 2,556	$ 1,926
Income taxes paid	8,059	

See accompanying notes to consolidated financial statements.

HARBINGER F&G, LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollar amounts in thousands)

(1) Basis of Presentation and Nature of Operations

Harbinger F&G, LLC (HFG and, collectively with its subsidiaries, the Company) is a direct, wholly-owned subsidiary of Harbinger Group Inc. (HGI). HGI is a diversified holding company focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries. HGI s shares of common stock trade on the New York Stock Exchange (NYSE) under the symbol HRG.

HFG was formed on August 3, 2010 under the name of Harbinger OM, LLC, a Delaware limited liability company, which was at that time wholly-owned by Harbinger Capital Partners Master Fund I, Ltd. (the Master Fund), a 68.4% holder of the outstanding common stock (representing a 50.8% voting interest) of HGI as of September 30, 2012. On March 9, 2011, the Master Fund contributed its 100% membership interest in Harbinger OM, LLC to HGI pursuant to a transfer agreement discussed further in Note 16. In connection therewith, the Master Fund transferred to HFG its 100% ownership of FS Holdco Ltd. (FS Holdco), the ultimate parent company of Front Street Re Ltd. (Front Street), a Bermuda-based reinsurer which commenced start-up operations in August 2010. On April 8, 2011, HGI caused the name of Harbinger OM, LLC to be changed to Harbinger F&G, LLC.

The contribution of HFG, including FS Holdco and Front Street, to HGI is considered a transaction between entities under common control of the Master Fund under Accounting Standards Codification (ASC) Topic 805, *Business Combinations*, and is accounted for similar to the pooling of interest method. In accordance with the guidance in ASC Topic 805, the assets and liabilities transferred between entities under common control are recorded by the receiving entity based on their carrying amounts (or at the historical cost basis of the parent, if these amounts differ). Accordingly, FS Holdco and Front Street are reflected in the accompanying consolidated financial statements at the historical cost basis of the Master Fund, as if they were held by HFG from their inception. Other than FS Holdco and Front Street, HFG had no assets, liabilities or operations at the date it was contributed to HGI. As of September 30, 2010, Front Street had received cumulative capital contributions of $491 from the Master Fund and incurred general and administrative start-up costs of $212 which are reflected as the opening balances of contributed capital and accumulated deficit, respectively, in the accompanying consolidated statement of member s equity for the year ended September 30, 2011.

As discussed further in Note 18, on April 6, 2011 (the FGL Acquisition Date), the Company acquired Fidelity & Guaranty Life Holdings, Inc. (formerly, Old Mutual U.S. Life Holdings, Inc.), a Delaware corporation (FGL), from OM Group (UK) Limited (OMGUK). Such acquisition (the FGL Acquisition) has been accounted for using the acquisition method of accounting. Accordingly, the results of FGL s operations have been included in the Company s financial statements commencing April 6, 2011.

FGL s primary business is the sale of individual life insurance products and annuities through independent agents, managing general agents, and specialty brokerage firms and in selected institutional markets. FGL s principal products are deferred annuities (including fixed indexed annuity (FIA) contracts), immediate annuities and life insurance products. FGL markets products through its wholly-owned insurance subsidiaries, Fidelity & Guaranty Life Insurance Company (FGL Insurance) and Fidelity & Guaranty Life Insurance Company of New York (FGL NY Insurance), which together are licensed in all fifty states and the District of Columbia.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

(2) Significant Accounting Policies and Practices

Principles of Consolidation

The accompanying audited consolidated financial statements include the accounts of HFG and all other entities in which HFG has a controlling financial interest. All intercompany accounts and transactions have been eliminated in consolidation.

Revenue Recognition

Insurance Premiums

The Company s insurance premiums for traditional life insurance products are recognized as revenue when due from the contractholder. The Company s traditional life insurance products include those products with fixed and guaranteed premiums and benefits and consist primarily of term life insurance and certain annuities with life contingencies.

Premium collections for fixed indexed and fixed rate annuities, indexed universal life (IUL) policies and immediate annuities without life contingency are reported as deposit liabilities (i.e., contractholder funds) instead of as revenues. Similarly, cash payments to policyholders are reported as decreases in the liability for contractholder funds and not as expenses. Sources of revenues for products accounted for as deposit liabilities are net investment income, surrender and other charges deducted from contractholder funds, and net realized gains (losses) on investments.

Net Investment Income

Dividends and interest income, recorded in Net investment income, are recognized when earned. Amortization of premiums and accretion of discounts on investments in fixed maturity securities are reflected in Net investment income over the contractual terms of the investments in a manner that produces a constant effective yield.

For mortgage-backed securities, included in the fixed maturity available-for-sale securities portfolios, the Company recognizes income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When actual prepayments differ significantly from originally anticipated prepayments, the effective yield is recalculated prospectively to reflect actual payments to date plus anticipated future payments. Any adjustments resulting from changes in effective yield are reflected in Net investment income.

Net Investment Gains (Losses)

Net investment gains (losses) include realized gains and losses from the sale of investments, write-downs for other-than-temporary impairments of available-for-sale investments, and gains and losses on derivative investments. Realized gains and losses on the sale of investments are determined using the specific identification method.

Product Fees

Product fee revenue from indexed universal life insurance products and deferred annuities is comprised of policy and contract fees charged for the cost of insurance policy administration and is assessed on a monthly basis and recognized as revenue when assessed and earned. Product fee revenue also includes surrender charges which are recognized and collected when the policy is surrendered.

Cash and Cash equivalents

The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. As of September 30, 2012 and 2011, cash equivalents were $2,250 and $2,768 respectively.

Investments

Investment Securities

The Company s investments in debt and equity securities have been designated as available-for-sale and are carried at fair value with unrealized gains and losses included in Accumulated other comprehensive income (loss) (AOCI), net of associated intangibles shadow adjustments (discussed in Note 7) and deferred income taxes.

Available-for-sale Securities Other-Than-Temporary Impairments

The Company regularly reviews available-for-sale securities for declines in fair value that it determines to be other-than-temporary. For an equity security, if the Company does not have the ability and intent to hold the security for a sufficient period of time to allow for a recovery in value, it concludes that an other-than-temporary impairment has occurred and the cost of the equity security is written down to the current fair value, with a corresponding charge to Net investment gains (losses) in the accompanying Consolidated Statements of Operations. When assessing its ability and intent to hold an equity security to recovery, the Company considers, among other things, the severity and duration of the decline in fair value of the equity security as well as the cause of the decline, a fundamental analysis of the liquidity, business prospects and the overall financial condition of the issuer.

For its fixed maturity available-for-sale securities, the Company generally considers the following in determining whether its unrealized losses are other-than-temporarily impaired:

The estimated range and period until recovery;

Current delinquencies and nonperforming assets of underlying collateral;

Expected future default rates;

Collateral value by vintage, geographic region, industry concentration or property type;

Subordination levels or other credit enhancements as of the balance sheet date as compared to origination; and

Contractual and regulatory cash obligations.

The Company recognizes other-than-temporary impairments on debt securities in an unrealized loss position when one of the following circumstances exists:

The Company does not expect full recovery of its amortized cost based on the estimate of cash flows expected to be collected;

The Company intends to sell a security; or

It is more likely than not that the Company will be required to sell a security prior to recovery.

If the Company intends to sell a debt security or it is more likely than not the Company will be required to sell the security before recovery of its amortized cost basis and the fair value of the security is below amortized cost, the Company will conclude that an other-than-temporary impairment has occurred and the amortized cost is written down to current fair value, with a corresponding charge to Net investment gains (losses) in the accompanying Consolidated Statements of Operations. If the Company does not intend to sell a debt security or it is more likely than not the Company will not be required to sell a debt security before recovery of its amortized cost basis and the present value of the cash flows expected to be collected is less than the amortized cost of the security (referred to as the credit loss), an other-than-temporary impairment has occurred and the amortized cost is written down to the estimated recovery value with a corresponding charge to Net investment gains (losses) in the accompanying Consolidated Statements of Operations, as this amount is deemed the credit loss portion of the other-than-temporary impairment. The remainder of the decline to fair value is recorded in AOCI as unrealized other-than-temporary impairment on available-for-sale securities, as this amount is considered a non-credit (i.e., recoverable) impairment.

When assessing the Company s intent to sell a debt security or if it is more likely than not the Company will be required to sell a debt security before recovery of its cost basis, the Company evaluates facts and circumstances such as, but not limited to, decisions to reposition the Company s security portfolio, sale of securities to meet cash flow needs and sales of securities to capitalize on favorable pricing and tax planning strategies. In order to determine the amount of the credit loss for a security, the Company calculates the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows the Company expects to recover. The discount rate is the effective interest rate implicit in the underlying security. The effective interest rate is the original purchased yield or the yield at the date the debt security was previously impaired.

When evaluating mortgage-backed securities and asset-backed securities, the Company considers a number of pool-specific factors as well as market level factors when determining whether or not the impairment on the security is temporary or other-than-temporary. The most important factor is the performance of the underlying collateral in the security and the trends of that performance. The Company uses this information about the collateral to forecast the timing and rate of mortgage loan defaults, including making projections for loans that are already delinquent and for those loans that are currently performing but may become delinquent in the future. Other factors used in this analysis include type of underlying collateral (e.g., prime, Alternative A-paper (Alt-A), or subprime), geographic distribution of underlying loans and timing of liquidations by state. Once default rates and timing assumptions are determined, the Company then makes assumptions regarding the severity of a default if it were to occur. Factors that impact the severity assumption include expectations for future home price appreciation or depreciation, loan size, first lien versus second lien, existence of loan level private mortgage insurance, type of occupancy and geographic distribution of loans. Once default and severity assumptions are determined for the security in question, cash flows for the underlying collateral are projected including expected defaults and prepayments. These cash flows on the collateral are then translated to cash flows on the Company s tranche based on the cash flow waterfall of the entire capital security structure. If this analysis indicates the entire principal on a particular security will not be returned, the security is reviewed for other-than-temporary impairments by comparing the present value of expected cash flows to amortized cost. To the extent that the security has already been impaired or was purchased at a discount, such that the amortized cost of the security is less than or equal to the present value of cash flows expected to be collected, no impairment is required. The Company also considers the ability of monoline insurers to meet their contractual guarantees on wrapped mortgage-backed securities. Otherwise, if the amortized cost of the security is greater than the present value of the cash flows expected to be collected, then an impairment is recognized.

The Company includes on the face of the Consolidated Statements of Operations the total other-than-temporary impairment recognized in net investment gains (losses), with an offset for the amount of non-credit impairments recognized in AOCI. The Company discloses the amount of other-than-temporary impairments recognized in AOCI and other disclosures related to other-than-temporary impairments in Notes 4 and 10.

Derivative Financial Instruments

The Company hedges certain portions of its exposure to product related equity market risk by entering into derivative transactions. All of such derivative instruments are recognized as either assets or liabilities in the accompanying Consolidated Balance Sheets at fair value. The change in fair value is recognized within Net investment gains (losses) in the accompanying Consolidated Statements of Operations.

The Company purchases and issues financial instruments and products that may contain embedded derivative instruments. If it is determined that the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract for measurement purposes. The embedded derivative is carried at fair value with changes in fair value reported in the accompanying Consolidated Statements of Operations.

Intangible Assets

The Company s intangible assets include value of business acquired (VOBA) and deferred acquisition costs (DAC).

VOBA represents the estimated fair value of the right to receive future net cash flows from in-force contracts in a life insurance company acquisition at the Acquisition Date. DAC represents costs that are related directly to new or renewal insurance contracts, which may be deferred to the extent recoverable. These costs include incremental direct costs of contract acquisition, primarily commissions, as well as certain costs related directly to underwriting, policy issuance and processing. Up front bonus credits to policyholder account values, which are considered to be deferred sales inducements (DSI), are accounted for similarly to DAC.

The methodology for determining the amortization of VOBA and DAC varies by product type. For all insurance contracts, amortization is based on assumptions consistent with those used in the development of the underlying contract adjusted for emerging experience and expected trends. US GAAP requires that assumptions for these types of products not be modified unless recoverability testing deems them to be inadequate. VOBA and DAC amortization are reported within Amortization of intangibles in the accompanying Consolidated Statements of Operations.

VOBA and DAC for IUL and investment-type products are generally amortized over the lives of the policies in relation to the incidence of estimated gross profits (EGPs) from investment income, surrender charges and other product fees, policy benefits, maintenance expenses, mortality net of reinsurance ceded and expense margins, and recognized gains (losses) on investments.

Changes in assumptions can have a significant impact on VOBA and DAC balances and amortization rates. Due to the relative size and sensitivity to minor changes in underlying assumptions of VOBA and DAC balances, the Company performs quarterly and annual analyses of VOBA and DAC for the annuity and indexed universal life businesses. The VOBA and DAC balances are also periodically evaluated for recoverability to ensure that the unamortized portion does not exceed the expected recoverable amounts. At each evaluation date, actual historical gross profits are reflected, and estimated future gross profits and related assumptions are evaluated for continued reasonableness. Any adjustment in estimated future gross profits requires that the amortization rate be revised (unlocking) retroactively to the date of the policy or contract issuance. The cumulative unlocking adjustment is recognized as a component of current period amortization.

The carrying amounts of VOBA and DAC are adjusted for the effects of realized and unrealized gains and losses on debt securities classified as available-for-sale and certain derivatives and embedded derivatives. Amortization expense of VOBA and DAC reflects an assumption for an expected level of credit-related investment losses. When actual credit-related investment losses are realized, the Company performs a retrospective unlocking of VOBA and DAC amortization as actual margins vary from expected margins. This unlocking is reflected in the accompanying Consolidated Statements of Operations.

For investment-type products, the VOBA and DAC assets are adjusted for the impact of unrealized gains (losses) on investments as if these gains (losses) had been realized, with corresponding credits or charges included in AOCI.

Reinsurance

The Company s insurance subsidiaries enter into reinsurance agreements with other companies in the normal course of business. The assets, liabilities, premiums and benefits of certain reinsurance contracts are presented on a net basis in the accompanying Consolidated Balance Sheets and Consolidated Statements of Operations, respectively, when there is a right of offset explicit in the reinsurance agreements. All other reinsurance agreements are reported on a gross basis in the Company s Consolidated Balance Sheets as an asset for amounts recoverable from reinsurers or as a component of other liabilities for amounts, such as premiums, owed to the reinsurers, with the exception of amounts for which the right of offset also exists. Premiums and benefits are reported net of insurance ceded.

Income Taxes

HFG and certain of its non-life insurance subsidiaries are included in the consolidated U.S. Federal income tax return of HGI. The Company s life insurance subsidiaries file a consolidated life insurance income tax return. Income taxes are accounted for under the asset and liability method. 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 basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company has the ability and intent to recover in a tax-free manner assets (or liabilities) with book/tax basis differences for which no deferred taxes have been provided, in accordance with ASC Topic 740, *Income Taxes.* Accordingly, the Company did not provide deferred income taxes on the bargain purchase gain of $158,341 on the FGL acquisition or the gain on contingent purchase price reduction of $41,000 in Fiscal 2012 and 2011, respectively.

The Company 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. The guidance also provides information on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely to be realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. Accrued interest expense and penalties related to uncertain tax positions are recorded in Income tax expense in the Company s Consolidated Statements of Operations. The Company had no unrecognized tax benefits related to uncertain tax positions as of September 30, 2012 and 2011.

Contractholder Funds and Future Policy Benefits

The liabilities for contractholder funds and future policy benefits for investment contracts and IUL insurance policies consist of contract account balances that accrue to the benefit of the contractholders, excluding surrender charges. Investment contracts include FIAs, deferred annuities and immediate annuities without life contingencies. The liabilities for future insurance contract benefits and claim reserves for traditional life policies and pay-out annuity policies are computed using assumptions for investment yields, mortality and withdrawals based principally on generally accepted actuarial methods and assumptions at the time of contract issue. Assumptions for contracts in-force as of the FGL Acquisition Date were updated as of that date.

Liabilities for the secondary guarantees on IUL-type products or Investment-type contracts are calculated by multiplying the benefit ratio by the cumulative assessments recorded from contract inception through the balance sheet date less the cumulative secondary guarantee benefit payments plus interest. If experience or assumption changes result in a new benefit ratio, the reserves are adjusted to reflect the changes in a manner similar to the unlocking of VOBA and DAC. The accounting for secondary guarantee benefits impacts, and is impacted by, EGPs used to calculate amortization of VOBA and DAC.

FIA contracts are equal to the total of the policyholder account values before surrender charges, and additional reserves established on certain features offered that link interest credited to an equity index. These features create an embedded derivative that is not clearly and closely related to the host insurance contract. The embedded derivative is carried at fair value with changes in fair value reported in the accompanying Consolidated Statements of Operations.

Federal Home Loan Bank of Atlanta Agreements

Contractholder funds include funds related to funding agreements that have been issued to the Federal Home Loan Bank of Atlanta (FHLB) as a funding medium for single premium funding agreements issued by the Company to the FHLB.

Funding agreements were issued to the FHLB in 2003, 2004, 2005 and 2011. The funding agreements (i.e., immediate annuity contracts without life contingencies) provide a guaranteed stream of payments. Single premiums were received at the initiation of the funding agreements and were in the form of advances from the FHLB. Payments under the funding agreements extend through 2022. The reserves for the funding agreements totaled $364,140 and $169,580 at September 30, 2012 and 2011, respectively, and are included in Contractholder funds in the accompanying Consolidated Balance Sheets.

In accordance with the agreements, the investments supporting the funding agreement liabilities are pledged as collateral to secure the FHLB funding agreement liabilities. The collateral investments had a fair value of $390,563 and $191,331 at September 30, 2012 and September 30, 2011, respectively.

Benefits and Other Changes in Policy Reserves

Benefit expenses for deferred annuity, FIA and IUL policies include benefit claims incurred during the period in excess of contract account balances. Other changes in policy reserves also include the change in reserves for life insurance products with secondary guarantee benefits. For traditional life, policy benefit claims are charged to expense in the period that the claims are incurred.

Retrospective Adjustments

As discussed further in Note 18, in Fiscal 2012 the Company finalized the provisional acquisition accounting balances for the FGL Acquisition, resulting in retrospective adjustments which increased the bargain purchase gain and net income by $7,264 in Fiscal 2011.

Recent Accounting Pronouncements Not Yet Adopted

Presentation of Comprehensive Income

In June 2011, the Financial Accounting Standards Board (FASB) issued amended disclosure requirements to report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. This guidance will be effective for the Company beginning in the fiscal year ending September 30, 2013. The Company does not expect the guidance to impact its consolidated financial statements, as it only requires a change in the format of presentation.

Offsetting Assets and Liabilities

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

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, other than disclosed herein, material recognizable, or unrecognizable, subsequent events.

(3) Significant Risks and Uncertainties

Use of Estimates

The preparation of financial statements in conformity with US 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 those estimates.

The Company s significant estimates which are susceptible to change in the near term relate to (1) recognition of deferred tax assets and related valuation allowances (see Notes 13 and 18), (2) fair value of certain invested assets and derivatives including embedded derivatives (see Notes 4, 5 and 6), (3) other-than-temporary impairments of available-for-sale investments (see Note 4), (4) amortization of intangibles (see discussion of Intangible Assets in Note 2 and also Note 7) and (5) estimates of reserves for loss contingencies, including litigation and regulatory reserves (see Note 14).

Concentrations of Financial Instruments

As of September 30, 2012, the Company s most significant investment in one industry was its investment securities in the banking industry with a fair value of $2,000,355, or 12% of the invested assets portfolio. The Company s holdings in this industry includes investments in 118 different issuers with the top ten investments accounting for 36% of the total holdings in this industry. As of September 30, 2012, the Company s exposure to sub-prime and Alternative-A residential mortgage-backed securities was $233,318 and $121,639, respectively, or each approximately 1% of the Company s invested assets. As of September 30, 2012 and 2011, the Company had investments in 5 and 38 issuers that exceeded 10% of stockholders equity with a fair value of $710,069 and $3,582,473, or 4% and 23% of the invested assets portfolio, respectively. Additionally, the Company s largest concentration in any single issuer as of September 30, 2012 and 2011 had a fair value of $152,876 and $159,265, or approximately 1% of the invested assets portfolio at each date.

Concentrations of Financial and Capital Markets Risk

Financial markets in the United States and elsewhere have experienced extreme volatility and disruption for more than three years, due largely to the stresses affecting the global banking system. Like other life insurers, FGL has been adversely affected by these conditions. FGL is exposed to financial and capital markets risk, including changes in interest rates and credit spreads which have had an adverse effect on FGL s results of operations, financial condition and liquidity prior to the FGL Acquisition. As discussed further in the following paragraph regarding risk factors, the Company expects to continue to face challenges and uncertainties that could adversely affect its results of operations and financial condition.

The Company s exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. A rise in interest rates, in the absence of other countervailing changes, will decrease the net unrealized gain position of the Company s investment portfolio and, if long-term interest rates rise dramatically within a six to twelve month time period, certain of the Company s products may be exposed to disintermediation risk. Disintermediation risk refers to the risk that policyholders may surrender their contracts in a rising interest rate environment, requiring the Company to liquidate assets in an unrealized loss position. This risk is mitigated to some extent by the high level of surrender charge protection provided by the Company s products.

Concentration of Reinsurance Risk

The Company has a significant concentration of reinsurance with Wilton Reassurance Company (Wilton Re) (see Note 15) that could have a material impact on the Company s financial position in the event that Wilton Re fails to perform its obligations under the various reinsurance treaties. As of September 30, 2012, the net amount recoverable from Wilton Re was $1,317,114. FGL monitors both the financial condition of individual reinsurers and risk concentration arising from similar geographic regions, activities and economic characteristics of reinsurers to reduce the risk of default by such reinsurers.

(4) Investments

The Company s investments at September 30, 2012 and 2011 are summarized as follows:

	September 30, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value and Carrying Value
Available-for-sale securities				
Asset-backed securities	$ 1,010,938	$ 18,553	$ (1,609)	$ 1,027,882
Commercial mortgage-backed securities	520,043	36,178	(2,407)	553,814
Corporates	10,211,804	807,175	(9,968)	11,009,011
Equities	237,499	11,860	(1,272)	248,087
Hybrids	519,009	18,836	(9,550)	528,295
Municipals	1,083,231	141,854	(1,090)	1,223,995
Agency residential mortgage-backed securities	149,455	5,769	(334)	154,890
Non-agency residential mortgage-backed securities	629,122	35,799	(4,262)	660,659
U.S. Government	917,452	12,915		930,367
Total available-for-sale securities	15,278,553	1,088,939	(30,492)	16,337,000
Derivative investments	142,123	66,973	(8,429)	200,667
Other invested assets	18,814			18,814
Total investments	$ 15,439,490	$ 1,155,912	$ (38,921)	$ 16,556,481

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value and Carrying Value
Available-for-sale securities				
Asset-backed securities	$ 501,469	$ 1,785	$ (2,770)	$ 500,484
Commercial mortgage-backed securities	580,313	3,427	(18,163)	565,577
Corporates	11,479,862	506,264	(130,352)	11,855,774
Equities	292,112	3,964	(9,033)	287,043
Hybrids	699,915	10,429	(51,055)	659,289
Municipals	824,562	111,929	(7)	936,484
Agency residential mortgage-backed securities	217,354	4,966	(295)	222,025
Non-agency residential mortgage-backed securities	465,666	1,971	(23,120)	444,517
U.S. Government	175,054	8,270		183,324
Total available-for-sale securities	15,236,307	653,005	(234,795)	15,654,517
Derivative investments	171,612	405	(119,682)	52,335
Other invested assets	44,279			44,279
Total investments	$ 15,452,198	$ 653,410	$ (354,477)	$ 15,751,131

Included in AOCI were cumulative unrealized gains of $851 and $524 and unrealized losses of $1,880 and $24 related to the non-credit portion of other-than-temporary impairments on non-agency residential mortgage-backed securities at September 30, 2012 and 2011, respectively.

Securities held on deposit with various state regulatory authorities had a fair value of $20,692 and $17,867 at September 30, 2012 and 2011, respectively.

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

	September 30, 2012	
	Amortized Cost	**Fair Value**
Corporate, Non-structured Hybrids, Municipal and U.S. Government securities:		
Due in one year or less	$ 700,491	$ 703,931
Due after one year through five years	3,230,602	3,324,453
Due after five years through ten years	3,692,333	3,995,811
Due after ten years	4,972,233	5,532,389
Subtotal	12,595,659	13,556,584
Other securities which provide for periodic payments:		
Asset-backed securities	1,010,938	1,027,882
Commercial-mortgage-backed securities	520,043	553,814
Structured hybrids	135,837	135,084
Agency residential mortgage-backed securities	149,455	154,890
Non-agency residential mortgage-backed securities	629,122	660,659
Total fixed maturity available-for-sale securities	$ 15,041,054	$ 16,088,913

As part of its ongoing securities monitoring process, the Company evaluates whether securities in an unrealized loss position could potentially be other-than-temporarily impaired. Excluding the non-credit portion of other-than-temporary impairments on non-agency residential mortgage-backed securities above, the Company has concluded that the fair values of the securities presented in the table below were not other-than-temporarily impaired as of September 30, 2012. This conclusion is derived from the issuers continued satisfaction of the securities obligations in accordance with their contractual terms along with the expectation that they will continue to do so. Also contributing to this conclusion is its determination that it is more likely than not that the Company will not be required to sell these securities prior to recovery, an assessment of the issuers financial condition, and other objective evidence. As it specifically relates to asset-backed securities and commercial mortgage-backed securities, the present value of cash flows expected to be collected is at least the amount of the amortized cost basis of the security and the Company s management has the intent to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value.

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

	September 30, 2012					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	$ 169,794	$ (1,042)	$ 7,533	$ (567)	$ 177,327	$ (1,609)
Commercial-mortgage-backed securities	813	(853)	10,716	(1,554)	11,529	(2,407)
Corporates	411,310	(8,124)	45,482	(1,844)	456,792	(9,968)
Equities			44,513	(1,272)	44,513	(1,272)
Hybrids	13,407	(339)	107,707	(9,211)	121,114	(9,550)
Municipals	71,160	(1,090)			71,160	(1,090)
Agency residential mortgage-backed securities	1,754	(199)	6,110	(135)	7,864	(334)
Non-agency residential mortgage-backed securities	12,853	(289)	101,777	(3,973)	114,630	(4,262)
Total available-for-sale securities	$ 681,091	$ (11,936)	$ 323,838	$ (18,556)	$ 1,004,929	$ (30,492)
Total number of available-for-sale securities in an unrealized loss position		100		56		156

	September 30, 2011					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	$ 275,135	$ (2,770)	$	$	$ 275,135	$ (2,770)
Commercial-mortgage-backed securities	338,865	(18,163)			338,865	(18,163)
Corporates	3,081,556	(130,352)			3,081,556	(130,352)
Equities	99,772	(9,033)			99,772	(9,033)
Hybrids	450,376	(51,055)			450,376	(51,055)
Municipals	1,137	(7)			1,137	(7)
Agency residential mortgage-backed securities	25,820	(295)			25,820	(295)
Non-agency residential mortgage-backed securities	375,349	(23,120)			375,349	(23,120)
Total available-for-sale securities	$ 4,648,010	$ (234,795)	$	$	$ 4,648,010	$ (234,795)
Total number of available-for-sale securities in an unrealized loss position		505				505

As the amortized cost of all investments was adjusted to fair value as of the FGL Acquisition Date, no individual securities had been in a continuous unrealized loss position greater than twelve months as of September 30, 2011.

At September 30, 2012 and 2011, securities in an unrealized loss position were primarily concentrated in investment grade corporate debt instruments, residential mortgage-backed securities and hybrids. Total unrealized losses were $30,492 and $234,795 at September 30, 2012 and 2011, respectively. Exposure to finance-related holdings represents the largest component of the unrealized loss position in the portfolio, as spreads for holdings in this industry sector remain above historical levels. Similar risk aversion effects have impacted prices of commercial mortgage-backed securities and non-agency residential mortgage-backed securities. The Company has added to its non-agency residential mortgage-backed holdings during the year by purchasing securities with an A credit rating or above at discounts. As of September 30, 2012, these securities were in an unrealized gain position. The Company has not added to its commercial mortgage-backed security exposure. The improvement in unrealized loss positions in corporate debt instruments from September 30, 2011 to September 30, 2012 was primarily a result of improving conditions for corporate issues.

The combination of ongoing liquidity efforts by global central banks to stem contagion from a Eurozone slowdown, and accommodative monetary policy (especially in the U.S.) that is keeping base interest rates low, helped drive strong performance in risk assets in the September 2012 quarter. The prices of securities exposed to the residential real estate market in the U.S. also increased, which management believes is a result of the decline in risk aversion and data indicating that the housing market in the US has improved.

At September 30, 2012 and 2011, securities with a fair value of $1,192 and $31,320, respectively, were depressed greater than 20% of amortized cost, which represented less than 1% of the carrying values of all investments. The improvement in unrealized loss positions from September 30, 2011 is primarily due to two factors: (i) securities at depressed prices were sold over the past fiscal year, reducing the size of holdings in an unrealized loss position and (ii) improving risk sentiment has lifted the market prices of investment grade bonds. Based upon the Company s current evaluation of these securities in accordance with its impairment policy and its intent to retain these investments for a period of time sufficient to allow for recovery in value, the Company has determined that these securities are not other-than-temporarily impaired.

The following table provides a reconciliation of the beginning and ending balances of the credit loss portion of other-than-temporary impairments on fixed maturity securities held by the Company at September 30, 2012 and 2011, for which a portion of the other-than-temporary impairment was recognized in AOCI:

	Year Ended September 30, 2012	Year Ended September 30, 2011
Beginning balance	$ 667	$
Increases attributable to credit losses on securities:		
Other-than-temporary impairment was previously recognized	112	
Other-than-temporary impairment was not previously recognized	1,902	667
Ending balance	$ 2,681	$ 667

For the year ended September 30, 2012, the Company recognized impairment losses in operations totaling $22,807, including credit impairments of $5,712 and change-of-intent impairments of $17,095, as well as non-credit losses in other comprehensive income totaling $1,529, for investments which experienced other-than-temporary impairments and had an amortized cost of $162,349 and a fair value of $138,013 at the time of impairment. For the year ended September 30, 2011, FGL recognized impairment losses in operations totaling $17,966, including credit impairments of $5,059 and change-of-intent impairments of $12,907, as well as non-credit gains totaling $500 in other comprehensive income, for investments which experienced other-than-temporary impairments and had an amortized cost of $103,312 and a fair value of $85,846 at the time of impairment. Details underlying write-downs taken as a result of other-than-temporary impairments that were recognized in operations and included in net realized gains on securities were as follows:

	Year Ended September 30, 2012	Year Ended September 30, 2011
Other-than-temporary impairments recognized in net income:		
Commercial mortgage-backed securities	$	$ 20
Corporates	4,116	1,462
Equities		11,007
Hybrids	9,688	
Non-agency residential mortgage-backed securities	7,531	5,059
Asset-backed loans and other invested assets	1,472	418
Total other-than-temporary impairments	$ 22,807	$ 17,966

Net Investment Income

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

	Year Ended September 30, 2012	Year Ended September 30, 2011
Fixed maturity available-for-sale securities	$ 707,132	$ 364,771
Equity available-for-sale securities	13,966	10,190
Invested cash and short-term investments	4,921	129
Policy loans	707	1,511
Other investments	1,179	326
Gross investment income	727,905	376,927
External investment expense	(11,634)	(7,087)
Net investment income	$ 716,271	$ 369,840

Net Investment Gains (Losses)

Details underlying Net investment gains (losses) reported in the accompanying Consolidated Statements of Operations were as follows:

	Year Ended September 30, 2012	Year Ended September 30, 2011
Net realized gains on fixed maturity available-for-sale securities	$ 264,408	$ 16,912
Realized gains (losses) on equity securities	924	(10,977)
Net realized gains on securities	265,332	5,935
Realized losses on certain derivative instruments	(10,280)	(44,776)
Unrealized gains (losses) on certain derivative instruments	156,332	(125,976)
Change in fair value of derivatives	146,052	(170,752)

Realized losses on other invested assets	(1,384)	(2,074)
Net investment gains (losses)	$ 410,000	$ (166,891)

For the years ended September 30, 2012 and 2011, proceeds from the sale of fixed maturity available-for-sale securities, including assets transferred to Wilton Re as discussed in Note 15 totaled $4,602,958 and $1,803,964, gross gains on such sales totaled $295,923 and $41,989 and gross losses totaled $13,842 and $17,109, respectively.

Underlying write-downs taken to fixed maturity available-for-sale securities as a result of other-than-temporary impairments that were recognized in earnings and included in net realized gains on securities above were $22,807 and $17,966 for the year ended September 30, 2012 and 2011, respectively. The portion of other-than-temporary impairments recognized in AOCI is disclosed in Note 10.

(5) Derivative Financial Instruments

The carrying amounts (which equal fair value) of derivative instruments, including derivative instruments embedded in FIA contracts, is as follows:

	September 30,	
	2012	**2011**
Assets:		
Derivative investments:		
Call options	$ 200,667	$ 52,335
Liabilities:		
Contractholder funds:		
FIA embedded derivative	$ 1,550,805	$ 1,396,340
Other liabilities:		
Futures contracts	928	3,828
Available-for-sale embedded derivative		$ 400
	$ 1,551,733	$ 1,400,568

The change in fair value of derivative instruments included in the accompanying Consolidated Statements of Operations is as follows:

	Year Ended September 30,	
	2012	**2011**
Revenues:		
Net investment gains (losses):		
Call options	$ 100,030	$ (142,665)
Futures contracts	46,022	(28,087)
	146,052	(170,752)
Net investment income:		
Available-for-sale embedded derivatives	400	19
	$ 146,452	$ (170,733)
Benefits and other changes in policy reserves:		
FIA embedded derivatives	$ 154,465	$ (69,968)

Additional Disclosures

FIA Contracts

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

The Company purchases derivatives consisting of a combination of call options and futures contracts on the applicable market indices to fund the index credits due to FIA contractholders. The call options are one, two and three year options purchased to match the funding requirements of the underlying policies. On the respective anniversary dates of the index policies, the index used to compute the interest credit is reset and the Company purchases new one, two or three year call options to fund the next index credit. The Company manages the cost of these purchases through the terms of its FIA contracts, which permit the Company to change caps or participation rates, subject to guaranteed minimums on each contract s anniversary date. The change in the fair value of the call options and futures contracts is generally designed to offset the portion of the change in the fair value of the FIA embedded derivative related to index performance. The call options and futures contracts are marked to fair value with the change in fair value included as a component of Net investment gains (losses). The change in fair value of the call options and futures contracts includes the gains and losses recognized at the expiration of the instrument term or upon early termination and the changes in fair value of open positions.

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

Credit Risk

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

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

Counterparty	Credit Rating (Moody s/S&P)	September 30, 2012 Notional Amount	September 30, 2012 Fair Value	September 30, 2011 Notional Amount	September 30, 2011 Fair Value
Bank of America	Baa2/A-	$ 1,884,047	$ 64,101	$ 1,692,142	$ 14,637
Deutsche Bank	A2/A+	1,816,532	61,704	1,463,596	11,402
Morgan Stanley	Baa1/A-	1,634,686	51,630	1,629,247	15,373
Royal Bank of Scotland	Baa1/A-	353,875	19,595		
Barclay s Bank	A2/A+	131,255	3,081	385,189	4,105
Credit Suisse	A2/A	10,000	556	327,095	2,785
Nomura	Baa2/A-			107,000	4,033
		$ 5,830,395	$ 200,667	$ 5,604,269	$ 52,335

Collateral Agreements

The Company is required to maintain minimum ratings as a matter of routine practice under its ISDA agreements. Under some ISDA agreements, the Company has agreed to maintain certain financial strength ratings. A downgrade below these levels provides the counterparty under the agreement the right to terminate the open derivative contracts between the parties, at which time any amounts payable by the Company or the counterparty would be dependent on the market value of the underlying derivative contracts. The Company s current rating allows multiple counterparties the right to terminate ISDA agreements. No ISDA agreements have been terminated, although the counterparties have reserved the right to terminate the ISDA agreements at any time. In certain transactions, the Company and the counterparty have entered into a collateral support agreement requiring either party to post collateral when the net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. As of September 30, 2012 and 2011, no collateral was posted by the Company s counterparties as they did not meet the net exposure thresholds. Accordingly, the maximum amount of loss due to credit risk that the Company would incur if parties to the call options failed completely to perform according to the terms of the contracts was $200,667 and $52,335 at September 30, 2012 and 2011, respectively.

The Company held 2,835 and 2,458 futures contracts at September 30, 2012 and 2011, respectively. The fair value of futures contracts represents the cumulative unsettled variation margin (open trade equity net of cash settlements). The Company provides cash collateral to the counterparties for the initial and variation margin on the futures contracts which is included in Cash and cash equivalents in the accompanying Consolidated Balance Sheets. The amount of collateral held by the counterparties for such contracts was $9,820 at both September 30, 2012 and 2011.

(6) Fair Value of Financial Instruments

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

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

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

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

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

When a determination is made to classify an asset or liability within Level 3 of the fair value hierarchy, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. Because certain securities trade in less liquid or illiquid markets with limited or no pricing information, the determination of fair value for these securities is inherently more difficult. However, Level 3 fair value investments may include, in addition to the unobservable or Level 3 inputs, observable components, which are components that are actively quoted or can be validated to market-based sources.

The carrying amounts and estimated fair values of the Company s consolidated financial instruments for which the disclosure of fair values is required, including financial assets and liabilities measured and carried at fair value on a recurring basis, with the exception of investment contracts and related party loans, are summarized according to the hierarchy previously described, as follows:

	September 30, 2012				
	Level 1	**Level 2**	**Level 3**	**Fair Value**	**Carrying Amount**
Assets					
Cash and cash equivalents	$ 1,052,338	$ 2,250	$	$ 1,054,588	$ 1,054,588
Contingent purchase price reduction receivable			41,000	41,000	41,000
Fixed maturity securities, available-for-sale:					
Asset-backed securities		1,012,027	15,855	1,027,882	1,027,882
Commercial mortgage-backed securities		548,791	5,023	553,814	553,814
Corporates		10,873,715	135,296	11,009,011	11,009,011
Hybrids		519,422	8,873	528,295	528,295
Municipals		1,223,995		1,223,995	1,223,995
Agency residential mortgage-backed securities		154,890		154,890	154,890
Non-agency residential mortgage-backed securities		660,659		660,659	660,659
U.S. Government	930,367			930,367	930,367
Equity securities available-for-sale		248,087		248,087	248,087
Derivative financial instruments		200,667		200,667	200,667
Related party loans			150,069	150,069	150,069
Related party investments			32,000	32,000	32,000
Other invested assets			18,814	18,814	18,814
Total financial assets	$ 1,982,705	$ 15,444,503	$ 406,930	$ 17,834,138	$ 17,834,138
Liabilities					
Derivatives:					
FIA embedded derivatives, included in contractholder funds	$	$	$ 1,550,805	$ 1,550,805	$ 1,550,805
Futures contracts		928		928	928
Investment contracts, included in contractholder funds			12,271,882	12,271,882	13,739,670
Total financial liabilities	$	$ 928	$ 13,822,687	$ 13,823,615	$ 15,291,403

	September 30, 2011				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Cash and cash equivalents	$ 818,135	$ 2,768	$	$ 820,903	$ 820,903
Fixed maturity securities, available-for-sale:					
Asset-backed securities		125,966	374,518	500,484	500,484
Commercial mortgage-backed securities		565,577		565,577	565,577
Corporates		11,696,090	159,684	11,855,774	11,855,774
Hybrids		654,084	5,205	659,289	659,289
Municipals		936,484		936,484	936,484
Agency residential mortgage-backed securities		218,713	3,312	222,025	222,025
Non-agency residential mortgage-backed securities		440,758	3,759	444,517	444,517
U.S. Government	183,324			183,324	183,324
Equity securities available-for-sale		287,043		287,043	287,043
Derivative financial instruments		52,335		52,335	52,335
Other invested assets			44,279	44,279	44,279
Total financial assets	$ 1,001,459	$ 14,979,818	$ 590,757	$ 16,572,034	$ 16,572,034
Liabilities					
Derivatives:					
FIA embedded derivatives, included in contractholder funds	$	$	$ 1,396,340	$ 1,396,340	$ 1,396,340
Futures contracts		3,828		3,828	3,828
Available-for-sale embedded derivative			400	400	400
Investment contracts, included in contractholder funds			11,992,013	11,992,013	13,153,630
Note payable		95,000		95,000	95,000
Total financial liabilities	$	$ 98,828	$ 13,388,753	$ 13,487,581	$ 14,649,198

The carrying amounts of accrued investment income and portions of other liabilities approximate fair value due to their short duration and, accordingly, they are not presented in the tables above.

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

The Company did not adjust prices received from third parties as of September 30, 2012 and 2011. However, the Company does analyze the third party valuation methodologies and its related inputs to perform assessments to determine the appropriate level within the fair value hierarchy.

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

Investment contracts include deferred annuities, FIAs, IUL and immediate annuities. The fair values of deferred annuities, FIA, and IUL contracts are based on their cash surrender value (i.e. the cost the Company would incur to extinguish the liability) as these contracts are generally issued without an annuitization date. The fair value of immediate annuities contracts is derived by calculating a new fair value interest rate using the updated yield curve and treasury spreads as of the respective reporting date. At September 30, 2012 and 2011, this resulted in lower fair value reserves relative to the carrying value. The Company is not required to and has not estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the definition of insurance contracts that are exceptions from financial instruments that require disclosures of fair value. The fair value of the Company s note payable at September 30, 2011 approximated its carrying value as it was settled at such carrying value in October 2011.

The related party loans (discussed in Note 16) were recently issued, as such fair value approximates carrying value.

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

	Fair Value at September 30, 2012	Valuation technique	Unobservable input(s)	Range (Weighted average)
Assets				
Contingent purchase price reduction receivable	$ 41,000	Discounted cash flow	Probability of collection	88% - 96% (92%)
			Expected term	9 months
			Discount rate	0.72%
			Credit insurance risk premium	11.7%
Asset-backed securities	15,855	Broker-quoted	Offered quotes	100% - 109.73% (103.09%)
Corporates	103,319	Broker-quoted	Offered quotes	0% - 140.61% (68.47%)
Corporates	31,977	Market pricing	Quoted prices	87.50% - 158.11% (97.89%)
Hybrids	8,873	Broker-quoted	Offered quotes	0% - 103% (25.35%)
Commercial mortgage-backed securities	5,023	Broker-quoted	Offered quotes	100.69%
Related party investments	32,000	Market approach	Price to book	1.0x - 1.4x
Total	$ 238,047			
Liabilities				
FIA embedded derivatives, included in contractholder funds	$ 1,550,805	Discounted cash flow	Market value of option	0% - 31.05% (3.55%)
			SWAP rates	0.76% - 1.7% (1.22%)
			Mortality multiplier	70% - 70% (70%)
			Surrender rates	2% - 50% (7%)
			Non-performance spread	0.25% - 0.25% (0.25%)
Total	$ 1,550,805			

The significant unobservable inputs used in the fair value measurement of the contingent purchase price reduction receivable are the probability of collection depending on the outcomes of litigation and regulatory action, the expected term until payment, discount rate and the credit insurance risk premium. Generally, an increase in the assumptions for the expected term, discount rate or credit insurance risk premium would decrease the fair value of the contingent purchase price receivable. An increase in the probability of collection would increase the fair value of the contingent purchase price reduction receivable.

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

The following tables summarize changes to the Company s financial instruments carried at fair value and classified within Level 3 of the fair value hierarchy for the years ended September 30, 2012 and 2011. This summary excludes any impact of amortization of VOBA and DAC. The gains and losses below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

	Year Ended September 30, 2012					
		Total Gains (Losses)				
	Balance at Beginning of Period	Included in Earnings	Included in AOCI	Net Purchases, Sales & Settlements	Net Transfer In (Out) of Level 3 [(a)]	Balance at End of Period
Assets						
Contingent purchase price reduction receivable	$	$ 41,000	$	$	$	$ 41,000
Fixed maturity securities, available-for-sale:						
Asset-backed securities	374,518		7,355	371,896	(737,914)	15,855
Commercial mortgage-backed securities			24	4,999		5,023
Corporates	159,684	28	(3,662)	(39,686)	18,932	135,296
Hybrids	5,205		(44)		3,712	8,873
Municipals		(2)	72	10,177	(10,247)	
Agency residential mortgage-backed securities	3,312		18		(3,330)	
Non-agency residential mortgage-backed securities	3,759	(126)	4	(777)	(2,860)	
Related party investment				32,000		32,000
Total assets at Level 3 fair value	$ 546,478	$ 40,900	$ 3,767	$ 378,609	$ (731,707)	$ 238,047
Liabilities						
FIA embedded derivatives, included in contractholder funds	$ (1,396,340)	$ (154,465)	$	$	$	$ (1,550,805)
Available-for-sale embedded derivatives	(400)	400				
Total liabilities at Level 3 fair value	$ (1,396,740)	$ (154,065)	$	$	$	$ (1,550,805)

(a) The net transfers in and out of Level 3 during the year ended September 30, 2012 were exclusively to or from Level 2.

	Year Ended September 30, 2011					
		Total Gains (Losses)		Net	Net	
	Balance at FGL Acquisition Date	Included in Earnings	Included in AOCI	Purchases, Sales & Settlements	Transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets						
Fixed maturity securities, available-for-sale:						
Asset-backed securities	$ 399,967	$	$ 863	$ (11,709)	$ (14,603)	$ 374,518
Corporates	197,573	1,993	5,408	(45,229)	(61)	159,684
Hybrids	8,305		(61)		(3,039)	5,205
Agency residential mortgage-backed securities	3,271		41			3,312
Non-agency residential mortgage-backed securities	18,519	2,364	379	(17,503)		3,759
Total assets at Level 3 fair value	$ 627,635	$ 4,357	$ 6,630	$ (74,441)	$ (17,703)	$ 546,478
Liabilities						
FIA embedded derivatives, included in contractholder funds	$ (1,466,308)	$ 69,968	$	$	$	$ (1,396,340)
Available-for-sale embedded derivatives	(419)	19				(400)
Total liabilities at Level 3 fair value	$ (1,466,727)	$ 69,987	$	$	$	$ (1,396,740)

(a) The net transfers in and out of Level 3 during the year ended September 30, 2011 were exclusively to or from Level 2.

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the beginning fair value for the reporting period in which the changes occur. There were no transfers between Level 1 and Level 2 for the years ended September 30, 2012 and 2011.

Primary market issuance and secondary market activity for certain asset-backed securities, corporates, municipals and residential mortgage-backed securities during Fiscal 2012 as well as asset-backed securities, corporates and hybrid securities during Fiscal 2011 increased the market observable inputs used to establish fair values for similar securities. These factors, along with more consistent pricing from third-party sources, resulted in the Company concluding that there is sufficient trading activity in similar instruments to support classifying these securities as Level 2 as of September 30, 2012 and 2011, respectively. Additionally, during the year a new third party began pricing the Company s collateral loan obligations (CLOs) holdings included in asset-backed securities. This new pricing vendor uses market observable inputs such as actual trade prices, yields, and other market assumptions as well as observable deal, tranche and collateral information in the pricing of CLOs and therefore supported a level 2 classification of these securities as of September 30, 2012. Accordingly, the Company s assessment resulted in a net transfer out of Level 3 of $794,012 related to asset-backed securities, corporates, hybrids, municipals and residential mortgage-backed securities during the year ended September 30, 2012 and $17,703 related to asset-backed securities, corporates and hybrids during the year ended September 30, 2011. There were also net transfers in to Level 3 of $3,712 related to hybrid securities during the year ended September 30, 2012.

The following tables present the gross components of purchases, sales, and settlements, net, of Level 3 financial instruments for the years ended September 30, 2012 and 2011. There were no issuances during these periods.

	Year Ended September 30, 2012			
	Purchases	**Sales**	**Settlements**	**Net Purchases, Sales & Settlements**
Assets				
Fixed maturity, securities available-for-sale:				
Asset-backed securities	$ 410,707	$	$ (38,811)	$ 371,896
Commercial mortgage-backed securities	4,999			4,999
Corporates	1,326	(26,788)	(14,224)	(39,686)
Municipals	10,197		(20)	10,177
Non-agency residential mortgage-backed securities		(475)	(302)	(777)
Total assets at Level 3 fair value	$ 427,229	$ (27,263)	$ (53,357)	$ 346,609

	Year Ended September 30, 2011			
	Purchases	**Sales**	**Settlements**	**Net Purchases, Sales & Settlements**
Assets				
Fixed maturity, securities available-for-sale:				
Asset-backed securities	$ 2,007	$	$ (13,716)	$ (11,709)
Corporates	10,365	(48,898)	(6,696)	(45,229)
Non-agency residential mortgage-backed securities		(15,729)	(1,774)	(17,503)
Total assets at Level 3 fair value	$ 12,372	$ (64,627)	$ (22,186)	$ (74,441)

(7) Intangible Assets

Information regarding VOBA and DAC (including DSI), is as follows:

	VOBA	**DAC**	**Total**
Balance at September 30, 2010	$	$	$
Acquisition of FGL on April 6, 2011	577,163		577,163
Deferrals		41,152	41,152
Less: Components of amortization			
Periodic amortization	294	(996)	(702)
Interest	14,040		14,040
Unlocking	(2,320)	97	(2,223)
Add: Adjustment for unrealized investment (gains), net	(170,117)	(2,146)	(172,263)
Balance at September 30, 2011	419,060	38,107	457,167
Deferrals		194,900	194,900
Less: Components of amortization			
Periodic amortization	(171,833)	(20,239)	(192,072)
Interest	28,883	1,942	30,825
Unlocking	(2,487)	3,078	591
Add: Adjustment for unrealized investment (gains), net	(169,303)	(48,565)	(217,868)
Balance at September 30, 2012	$ 104,320	$ 169,223	$ 273,543

Amortization of VOBA and DAC is based on the amount of gross margins or profits recognized, including investment gains and losses. The adjustment for unrealized net investment gains represents the amount of VOBA and DAC that would have been amortized if such unrealized gains and losses had been recognized. This is referred to as the shadow adjustments as the additional amortization is reflected in other comprehensive income rather than the statements of operations. As of September 30, 2012 and 2011, the VOBA balance included cumulative adjustments for net unrealized investment gains of $(339,420) and $(170,117), respectively, and the DAC balances included cumulative adjustments for net unrealized investment gains of $(50,711) and $(2,146), respectively.

The above DAC balances include $9,068 and $5,048 of DSI, net of shadow adjustments, as of September 30, 2012 and 2011, respectively.

The weighted average amortization period for VOBA and DAC are approximately 5.5 and 6.3 years, respectively. Estimated amortization expense for VOBA and DAC in future fiscal years is as follows:

	Estimated Amortization Expense	
Fiscal Year	**VOBA**	**DAC**
2013	$ 49,851	$ 18,293
2014	57,552	23,090
2015	51,503	23,376
2016	47,148	22,315
2017	39,965	21,042
Thereafter	197,721	111,818

(8) Other Liabilities

Other liabilities consisted of the following:

	September 30,	
	2012	**2011**
Amounts payable for investment purchases	$ 206,681	$ 13,353
Retained asset account	203,685	191,452
Income taxes payable	66,284	
Funds withheld from reinsurers	54,691	52,953
Amounts payable to reinsurers	31,959	13,884
Remittances and items not allocated	29,469	34,646
Accrued expenses	25,199	21,952
Derivatives futures contracts	928	3,828
Amounts due to HGI (Note 15)		49,339
Other	84,326	51,500
	$ 703,222	$ 432,907

(9) Note Payable

On April 7, 2011, Raven Reinsurance Company (Raven Re), a newly-formed wholly-owned subsidiary of FGL, issued a $95,000 surplus note to OMGUK. The surplus note was issued at par and carried a 6% fixed interest rate, as discussed further in Note 15. The note had a maturity date which was the later of (i) December 31, 2012 or (ii) the date on which all amounts due and payable to the lender have been paid in full. The note was settled in October 2011 at face value (without the payment of interest) in connection with the closing of the Raven springing amendment and replacement of the reserve facility discussed in Note 15.

(10) Member s Equity

Accumulated Other Comprehensive Income

Net unrealized gains and losses on investment securities classified as available-for-sale are reduced by deferred income taxes and adjustments to VOBA and DAC that would have resulted had such gains and losses been realized. Changes in net unrealized gains and losses on investment securities classified as available-for-sale recognized in AOCI for years ended September 30, 2012 and 2011 were as follows:

	Unrealized Investment Gains, net	Non-credit Related Other-than-temporary Impairments	Total
Balances at September 30, 2010	$	$	$
Gross change before reclassification adjustment	420,929	500	421,429
Net reclassification adjustment for losses (gains) included in earnings	(3,861)		(3,861)
Gross change after reclassification adjustment	417,068	500	417,568
Intangible assets adjustment	(172,057)	(206)	(172,263)
Deferred tax effect	(85,709)	(103)	(85,812)
Net adjustment to AOCI	159,302	191	159,493
Balances at September 30, 2011	$ 159,302	$ 191	$ 159,493
Gross change before reclassification adjustment	906,473	(1,529)	904,944
Net reclassification adjustment for losses (gains) included in earnings	(263,948)		(263,948)
Gross change after reclassification adjustment	642,525	(1,529)	640,996
Intangible assets adjustment	(218,454)	586	(217,868)
Deferred tax effect	(148,469)	330	(148,139)
Net adjustment to AOCI	275,602	(613)	274,989
Balances at September 30, 2012	$ 434,904	$ (422)	$ 434,482
Cumulative components at September 30, 2012:			
Gross amounts (after reclassification adjustments)	$ 1,059,593	$ (1,029)	$ 1,058,564
Intangible assets adjustments	(390,511)	380	(390,131)
Tax effects	(234,178)	227	(233,951)
	$ 434,904	$ (422)	$ 434,482
Cumulative components at September 30, 2011:			
Gross amounts (after reclassification adjustments)	$ 417,068	$ 500	$ 417,568
Intangible assets adjustments	(172,057)	(206)	(172,263)
Tax effects	(85,709)	(103)	(85,812)
	$ 159,302	$ 191	$ 159,493

Restricted Net Assets of Subsidiaries

HFG s equity in restricted net assets of consolidated subsidiaries was approximately $1,164,089 as of September 30, 2012, representing 90% of HFG s consolidated member s equity as of September 30, 2012 and consisted of net assets of FGL which were restricted as to transfer to HFG in the form of cash dividends, loans or advances under regulatory restrictions.

(11) Employee Benefit Plans

FGL sponsors a defined contribution plan in which eligible participants may defer a fixed amount or a percentage of their eligible compensation, subject to limitations, and FGL makes a discretionary matching contribution of up to 5% of eligible compensation. FGL has also established a nonqualified defined contribution plan for independent agents. FGL makes contributions to the plan based on both FGL s and the agent s performance. Contributions are discretionary and evaluated annually. Aggregate contributions charged to operations for the defined contribution plans, including discretionary amounts, were $812 and $319 for the years ended September 30, 2012 and 2011, respectively.

(12) Stock Compensation

Total stock compensation expense associated with stock option awards recognized by the Company during Fiscal 2012 was $163 ($106, net of related tax expense). No stock compensation expense was incurred during Fiscal 2011. The stock compensation expense is included in Acquisition and operating expenses, net of deferrals in the Consolidated Statements of Operations.

A summary of the Company s outstanding stock options as of September 30, 2012, and changes during the year, is as follows:

Stock Option Awards	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Stock options outstanding at September 30, 2011		$	$
Granted	207	38.20	3.90
Exercised			
Forfeited or expired	(6)	38.14	3.90
Stock options outstanding at September 30, 2012	201	38.20	3.90
Vested and exercisable at September 30, 2012			
Outstanding and expected to vest at September 30, 2012	161	38.20	3.90

The total compensation cost related to non-vested awards not yet recognized as of September 30, 2012 totaled $464 and will be recognized over a weighted-average period of 2.1 years.

On November 2, 2011, FGL s compensation committee (on behalf of its board of directors) approved a long-term stock-based incentive plan that permits the grant of options to purchase shares of FGL s common stock to key employees of FGL. On November 2, 2011, FGL s compensation committee also approved a dividend equivalent plan that permits holders of these options the right to receive a payment in cash in an amount equal to the ordinary dividends declared and paid or debt service payments to HGI by FGL in each calendar year, divided by the total number of FGL common shares outstanding, starting in the year in which the dividend equivalent is granted through the year immediately prior to the year in which the dividend equivalent vests with respect to a participant s option shares.

During Fiscal 2012, FGL granted 207 stock option awards under the terms of the plan. These stock options vest over a period of 3 years and expire on the seventh anniversary of the grant. The total fair value of the grants on their grant dates was approximately $807. As of September 30, 2012, FGL determined it was probable that the dividend equivalent plan will vest and recorded a provision of $504 for the ratable recognition of such projected liability over the option vesting period.

The following assumptions were used in the determination of these grant date fair values using the Black-Scholes option pricing model:

	2012
Risk-free interest rate	0.8%
Assumed dividend yield	10.0%
Expected option term	4.5 years
Volatility	35.0%

(13) Income Taxes

Income Taxes

HFG is a limited liability company wholly owned by HGI. For income tax purposes, HFG and its non-life insurance subsidiaries (exclusive of FGL s non-life subs) (collectively HFGNL) are disregarded entities and taxed as if they were part of HGI. As a result, income tax expense or benefit resulting from their operations is not recorded in the Company s financial statements. If HFGNL were a separate taxable entity, its income tax expense would be computed on a standalone basis in accordance with ASC Topic 740 and, on a pro forma basis, would have been $4,612 for Fiscal 2012, consisting of a $3,334 current tax expense and a $1,278 deferred tax expense, and $441 for Fiscal 2011, consisting of a $1,961 current tax expense partially offset by a $1,520 deferred tax benefit.

The financial statement income tax accounts reflect income tax benefit (expense) solely for FGL, as follows.

Income tax benefit was calculated based upon the following components of income before income taxes:

	Year Ended September 30, 2012	2011
Pretax income (loss):		
United States	$ 201,647	$ 119,376
Outside the United States	(3,131)	(4,359)
Total pretax income	$ 198,516	$ 115,017

The components of income tax benefit were as follows:

	Year Ended September 30, 2012	2011
Current:		
Federal	$ (74,388)	$ 875
State		
Total current	(74,388)	875
Deferred:		
Federal	220,046	40,869
State		
Total deferred	220,046	40,869
Income tax benefit	$ 145,658	$ 41,744

The difference between income taxes expected at the U.S. Federal statutory income tax rate of 35% and reported income tax benefit is summarized as follows:

	Year Ended September 30,	
	2012	**2011**
Expected income tax (expense) at Federal statutory rate	$ (69,481)	$ (40,256)
Income tax expense of HFGNL at Federal statutory rate	20,377	51,965
Valuation allowance for deferred tax assets	197,798	30,064
Other	(3,036)	(29)
Reported income tax benefit	$ 145,658	$ 41,744
Effective tax rate	(73.4)%	(36.3)%

For the year ended September 30, 2012, the Company s effective tax rate of (73.4)%, representing a tax benefit despite pretax income, was positively impacted by the partial release of valuation allowance attributed to the Company s determination that certain of its deferred tax assets are more likely than not realizable, and the gain on contingent purchase price reduction incurred by HFGNL, which is reflected in the effect of its income excluded in the above table.

For the year ended September 30, 2011, the Company s effective tax rate of (36.3)%, representing a tax benefit despite pretax income, was positively impacted by the partial release of valuation allowance attributed to the Company s determination that certain of its deferred tax assets are more likely than not realizable, and the bargain purchase gain incurred by HFGNL, which is reflected in the effect of its income excluded in the above table.

The following table is a summary of the components of deferred income tax assets and liabilities:

	September 30,	
	2012	**2011**
Noncurrent deferred tax assets:		
Net operating loss, credit and capital loss carryforwards	$ 283,988	$ 475,248
Deferred acquisition costs	9,906	74,175
Insurance reserves and claim related adjustments	620,285	408,214
Other	19,680	22,214
Valuation allowance	(177,508)	(375,306)
Total noncurrent deferred tax assets	756,351	604,545
Noncurrent deferred tax liabilities:		
Value of business acquired	(36,512)	(148,876)
Investments	(438,655)	(246,632)
Other	(1,548)	(1,308)
Total noncurrent deferred tax liabilities	(476,715)	(396,816)
Net current and noncurrent deferred tax assets	$ 279,636	$ 207,729

At September 30, 2012, the Company s deferred tax assets were primarily the result of U.S. net operating loss (NOL), capital loss and tax credit carryforwards and insurance reserves. Its net deferred tax asset position at September 30, 2012 and 2011, before consideration of its recorded valuation allowance, totaled $457,144 and $583,035, respectively. A valuation allowance of $177,508 and $375,306 was recorded against its gross deferred tax asset balance at September 30, 2012 and 2011, respectively. The Company s net deferred tax asset position at September 30, 2012 and 2011, after taking into consideration the valuation allowance, is $279,636 and $207,729, respectively. For the years ended September 30, 2012 and 2011, the Company recorded a net valuation allowance release of $197,798 (comprised of a full year valuation release of $204,736 related to the life insurance

companies, partially offset by an increase to valuation allowance of $6,938 related to FGL s non-life companies) and $30,064, respectively, based on management s reassessment of the amount of its deferred tax assets that are more-likely-than-not realizable.

At September 30, 2012, the Company s valuation allowance of $177,508 consisted of a partial valuation allowance of $145,854 on capital loss carryforwards and a full valuation allowance of $31,654 on FGL s non-life insurance net deferred taxes. At September 30, 2011, the Company s valuation allowance of $375,306 consisted of a partial valuation allowance of $138,257 on capital loss carryforwards, a full valuation allowance of $24,716 on FGL s non-life insurance net deferred taxes and a partial valuation allowance of $212,333 on other net deferred taxes, including NOLs.

As a consequence of FGL s acquisition, certain tax attributes (carry-forwards) became limited at the FGL Acquisition Date. In addition, FGL experienced cumulative losses during the three year period preceding its acquisition. These are among the factors the Company considered in establishing a valuation allowance against FGL s deferred tax asset position at the FGL Acquisition Date.

At each reporting date, management considers new evidence, both positive and negative, that could impact management s view with regard to future realization of deferred tax assets. As of September 30, 2012, management considered the following positive and negative evidence concerning the future realization of FGL s deferred tax assets:

Positive Evidence:

FGL has three years of cumulative US GAAP pre-tax income;

FGL s internal projections of taxable income estimated in future periods reflect a continuation of this trend;

FGL has projected that the reversal of taxable temporary timing differences will unwind in the twenty year projection period;

FGL has refined tax planning strategies to utilize capital loss carryforwards by selling acquisition date built-in gains;

FGL has a history of utilizing all significant tax attributes before they expire; and

FGL s inventory of limited attributes has been significantly reduced as a result of amending certain tax returns.

Negative Evidence:

Tax rules limit the ability to use carryforwards in future years;

There is a brief carryback/carryforward period for life insurance company capital losses (i.e. 3-year carryback/ 5-year carryforward)

Based on an assessment of the evidence above, management determined that sufficient positive evidence exists as of September 30, 2012 to conclude that it is more likely than not that additional deferred taxes of FGL are more-likely-than-not realizable and, therefore, reduced the valuation allowance accordingly.

At September 30, 2012 and 2011, FGL has NOL carryforwards of $86,978 and $428,005, respectively, which, if unused, will expire in years 2026 through 2032. FGL has capital loss carryforwards totaling $551,897 and $717,267 at September 30, 2012 and 2011, respectively, which if unused, will expire in years 2013 through 2017. In addition, at September 30, 2012 and 2011, FGL has low income housing tax credit carryforwards totaling $52,780 and $68,099, respectively, which, if unused, will expire in years 2017 through 2032 and alternative minimum tax credits of $7,602 and $6,304, respectively, that may be carried forward indefinitely. Certain tax

attributes are subject to an annual limitation as a result of the acquisition of FGL by the Company, which constitutes a change of ownership, as defined under IRC Section 382.

U.S. Federal income tax returns of FGL for years prior to 2008 are no longer subject to examination by the taxing authorities. With limited exception, FGL is no longer subject to state and local income tax audits for years prior to 2008. However, Federal NOL carryforwards from tax years ended June 30, 2006 and December 31, 2006, respectively, continue to be subject to Internal Revenue Service examination until the statute of limitations expires for the years in which these NOL carryforwards are ultimately utilized.

(14) Commitments and Contingencies

Lease Commitments

The Company leases office space under non-cancelable operating leases that expire in May 2021. The Company also leased office furniture and office equipment under non-cancelable operating leases that expired in 2012. For the years ended September 30, 2012 and 2011, the Company s total rent expense was $2,301 and $1,346, respectively. As of September 30, 2012, the minimum rental commitments under the non-cancelable leases are as follows:

Fiscal Year	Amount
2013	$ 1,158
2014	1,192
2015	1,227
2016	1,263
2017	1,249
Thereafter	5,184
Total	$ 11,273

Contingencies

Regulatory and Litigation Matters

FGL is assessed amounts by the state guaranty funds to cover losses to policyholders of insolvent or rehabilitated insurance companies. Those mandatory assessments may be partially recovered through a reduction in future premium taxes in certain states. At September 30, 2012, FGL has accrued $5,909 for guaranty fund assessments which is expected to be offset by estimated future premium tax deductions of $4,213.

The Company has received inquiries from a number of state regulatory authorities regarding its use of the U.S. Social Security Administration s Death Master File (Death Master File) and compliance with state claims practices regulation and unclaimed property and escheatment laws. To date, the Company has received inquiries from authorities in Maryland, Minnesota and New York. The New York Insurance Department issued a letter and subsequent regulation requiring life insurers doing business in New York to use the Death Master File or similar databases to determine if benefits were payable under life insurance policies, annuities and retained asset accounts. Legislation requiring insurance companies to use the Death Master File to identify potential claims has recently been enacted in FGL s state of domicile (Maryland) and other states. As a result of these legislative and regulatory developments, in May 2012 the Company undertook an initiative to use the Death Master File and other publicly available databases to identify persons potentially entitled to benefits under life insurance policies, annuities and retained asset accounts. During Fiscal 2012, the Company incurred an $11,000 benefit expense, net of reinsurance, to increase reserves to cover potential benefits payable resulting from this ongoing effort. Based on its analysis to date and management s estimate, the Company believes the remaining accrual will cover the reasonably estimated liability arising out of these developments. Additional costs that cannot be reasonably estimated as of the date of this filing are possible as a result of ongoing regulatory developments and other future requirements related to this matter.

The Company is involved in various pending or threatened legal proceedings, including purported class actions, arising in the ordinary course of business. In some instances, these proceedings include claims for unspecified or substantial punitive damages and similar types of relief in addition to amounts for alleged contractual liability or requests for equitable relief. In the opinion of management and in light of existing insurance and other potential indemnification, reinsurance and established reserves, such litigation is not expected to have a material adverse effect on the Company s financial position, although it is possible that the results of operations and cash flows could be materially affected by an unfavorable outcome in any one period.

Guarantees

The First Amended and Restated Stock Purchase Agreement, dated February 17, 2011 (the F&G Stock Purchase Agreement) between HFG and OMGUK includes a Guarantee and Pledge Agreement which creates certain obligations for FGL as a grantor and also grants a security interest to OMGUK of FGL s equity interest in FGL Insurance in the event that HFG fails to perform in accordance with the terms of the F&G Stock Purchase Agreement. The Company is not aware of any events or transactions that resulted in non-compliance with the Guarantee and Pledge Agreement.

(15) Reinsurance

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

The effect of reinsurance on premiums earned, benefits incurred and reserve changes for the years ended September 30, 2012 and 2011 were as follows:

	Year Ended September 30,			
	2012		2011	
	Net Premiums Earned	Net Benefits Incurred and Reserve Changes	Net Premiums Earned	Net Benefits Incurred and Reserve Changes
Direct	$ 297,964	$ 1,033,336	$ 157,772	$ 392,073
Assumed	47,179	34,940	22,858	19,571
Ceded	(289,846)	(290,904)	(141,628)	(164,012)
Net	$ 55,297	$ 777,372	$ 39,002	$ 247,632

Amounts payable or recoverable for reinsurance on paid and unpaid claims are not subject to periodic or maximum limits. During the years ended September 30, 2012 and 2011, the Company did not write off any reinsurance balances nor did it commute any ceded reinsurance.

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

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

The Company has the following significant reinsurance agreements as of September 30, 2012:

Reserve Facility

Pursuant to the F&G Stock Purchase Agreement, on April 7, 2011, FGL Insurance recaptured all of the life insurance business ceded to Old Mutual Reassurance (Ireland) Ltd. (OM Re), an affiliate of OMGUK. OM Re transferred assets with a fair value of $653,684 to FGL Insurance in settlement of all of OM Re s obligations under these reinsurance agreements. The fair value of the transferred assets, which was based on the economic reserves, was approved by the Maryland Insurance Administration. No gain or loss was recognized in connection with the recapture. The fair value of the assets acquired and liabilities assumed is reflected in the FGL purchase price allocation. See Note 18 for additional details.

On April 7, 2011, FGL Insurance ceded to Raven Re, on a coinsurance basis, a significant portion of the business recaptured from OM Re. Raven Re was capitalized by a $250 capital contribution from FGL Insurance and a surplus note (i.e., subordinated debt) issued to OMGUK in the principal amount of $95,000 (see Note 9 for the terms of such note). The proceeds from the surplus note issuance and the surplus note are reflected in the FGL purchase price allocation. Raven Re financed $535,000 of statutory reserves for this business with a letter of credit facility provided by Nomura and guaranteed by OMGUK and HFG.

On April 7, 2011, FGL Insurance entered into a reimbursement agreement with Nomura to establish a reserve facility and Nomura charged an upfront structuring fee (the Structuring Fee). The Structuring Fee was in the amount of $13,750 and is related to the retrocession of the life business recaptured from OM Re and related credit facility. The Structuring Fee was deferred and was fully amortized as of September 30, 2011 as a result of the termination of the reserve facility in connection with FGL Insurance accelerating the effective date of the amended and restated Raven Springing Amendment which is described in the Wilton Agreement discussion below.

Wilton Agreement

On January 26, 2011, HFG entered into a commitment agreement (the Commitment Agreement) with Wilton Re U.S. Holdings, Inc. (Wilton) committing Wilton Re, a wholly-owned subsidiary of Wilton and a Minnesota insurance company, to enter into one of two amendments to an existing reinsurance agreement with FGL Insurance. On April 8, 2011, FGL Insurance ceded significantly all of the remaining life insurance business that it had retained to Wilton Re under the first of the two amendments with Wilton. FGL Insurance transferred assets with a fair value of $535,826, net of ceding commission, to Wilton Re. The Company considered the effects of the first amendment in the opening balance sheet and purchase price allocation as of FGL Acquisition Date. Effective April 26, 2011, HFG elected the second of the two amendments under the Commitment Agreement (the Raven Springing Amendment), which committed FGL Insurance to cede to Wilton Re all of the business (the Raven Block) then reinsured with Raven Re on or before December 31, 2012, subject to regulatory approval. The Raven Springing Amendment was intended to mitigate the risk associated with HFG s obligation under the F&G Stock Purchase Agreement, by replacing the Raven Re reserve facility by December 31, 2012. On September 9, 2011, FGL Insurance and Wilton Re executed an amended and restated Raven Springing Amendment whereby the recapture of the business ceded to Raven Re by FGL Insurance and the re-cession to Wilton Re closed on October 17, 2011 with an effective date of October 1, 2011. In connection with the closing, FGL Insurance transferred assets with a fair value of $580,683, including ceding commission, to Wilton Re.

In September 2012, Wilton Re and FGL Insurance reached a final agreement on the initial settlements associated with the reinsurance transactions FGL Insurance entered into subsequent to the FGL Acquisition. The final settlement amounts did not result in any material adjustments to the amounts reflected in the financial statements. FGL Insurance recognized a net pre-tax gain of $18,029 on these reinsurance transactions which has been deferred and is being amortized over the remaining life of the underlying reinsured contracts.

Commissioners Annuity Reserve Valuation Method Facility (CARVM)

Effective September 30, 2008, FGL Insurance entered into a yearly renewable term quota share reinsurance agreement with OM Re, whereby OM Re assumed a portion of the risk that policyholders exercise the waiver of surrender charge features on certain deferred annuity policies. This agreement did not meet risk transfer requirements to qualify as reinsurance under US GAAP. Under the terms of the agreement, the Company expensed net fees of $4,004 and $1,809 for the years ended September 30, 2012 and 2011, respectively. Although this agreement did not provide reinsurance for reserves on a US GAAP basis, it did provide for reinsurance of reserves on a statutory basis. The statutory reserves were secured by a letter of credit with Old Mutual plc of London, England (OM), OMGUK s parent.

Effective October 1, 2012, FGL Insurance recaptured the CARVM reinsurance agreement from OM Re and simultaneously ceded the business to Raven Re. The recapture of the OM Re CARVM reinsurance agreement satisfies the Company s obligation under the F&G Stock Purchase Agreement to replace the letter of credit provided by OM no later than December 31, 2015. In connection with the new CARVM reinsurance agreement, FGL and Raven Re entered into an agreement with Nomura Bank International plc (Nomura) to establish a $295,000 reserve financing facility in the form of a letter of credit issued by Nomura and Nomura charged an upfront structuring fee in the amount of $2,800. The structuring fee was paid by FGL Insurance and will be deferred and amortized over the expected life of the facility.

(16) Related Party Transactions

Since its inception, the Company has utilized the services of the management and staff of HGI and also shares office space with HGI. The Company recorded approximately $25 as contributed capital for such services for the year ended September 30, 2012. The Company believes these allocations were made on a reasonable basis; however, they do not necessarily represent the costs that would have been incurred by the Company on a stand-alone basis. The Company did not record a cost for these services for the year ended September 30, 2011, as the amount was inconsequential.

FGL participates in loans originated by Salus Capital Partners LLC (Salus), an affiliated company indirectly owned by HGI that provides asset-based financing. Salus has assets of $195,000 (unaudited) and liabilities of $163,000 (unaudited) as of September 30, 2012. As part of the participation agreement entered into with Salus, FGL has committed to participate in its share of up to $182,371 of the loans originated by Salus, of which $52,904 remains undrawn as of September 30, 2012 and $129,467 of loan participations and accrued interest of $602 are included in Related party loans and investment in the Consolidated Balance Sheet as of September 30, 2012. In addition to the participation in loans originated by Salus, FGL also agreed to provide Salus with financing in the form of a revolving loan of $20,000, which is also included in Related party loans and investment in the Consolidated Balance Sheet as of September 30, 2012. For Fiscal 2012, FGL earned interest of $2,041 and undrawn line fees of $67 on the revolving loan with Salus, which is included in Net investment income in the Consolidated Statement of Operations.

On September 15, 2012, Harbinger Asset Management, LLC (HAM), an affiliated company, transferred its account interest in Salus to FS Holdco. The account interest consists of HAM s contributed capital to Salus of $32,000 and an annual preferred dividend of 8%. HAM retained its interest in Salus residual profits and its ability to direct Salus operations. After the transfer of the account interest, Salus is considered to be a variable-interest entity. HAM was determined to be the primary beneficiary of Salus operations, based on its ability to direct Salus activities that most significantly impact economic performance and the conclusion that the operations of HAM and Salus are more closely related under the related party tie-breaker test, and therefore continues to consolidate Salus. HFG accounted for the transfer at HAM s carrying value since the transaction was between entities under common control. The account interest of $32,000 is included in Related party loans and investment in the Consolidated Balance Sheet as of September 30, 2012, as an equity investment carried at fair value through accumulated other comprehensive income. The Company s loss exposure at Salus is limited to the recoverability of the interest and principle of its investments and loans carried on the Balance Sheet.

HGI had advanced amounts to the Company to fund collateral posted by the Company under the Nomura reserve facility described in Note 15. As of September 30, 2011, the amounts that were due to HGI, which were included in Other liabilities, aggregated $49,339, which was subsequently repaid in October 2011 upon the termination of the reserve facility and return of the collateral.

On March 7, 2011, HGI entered into an agreement (the Transfer Agreement) with the Master Fund whereby on March 9, 2011, (i) HGI acquired from the Master Fund a 100% membership interest in HFG, which was the buyer under the F&G Stock Purchase Agreement, between HFG and OMGUK, pursuant to which HFG agreed to acquire all of the outstanding shares of capital stock of FGL and certain intercompany loan agreements between OM Group, as lender, and FGL, as borrower, and (ii) the Master Fund transferred to HFG the sole issued and outstanding Ordinary Share of FS Holdco, a Cayman Islands exempted limited company (together, the Insurance Transaction). In consideration for the interests in HFG and FS Holdco, HGI agreed to reimburse the Master Fund for certain expenses incurred by the Master Fund in connection with the Insurance Transaction (up to a maximum of $13,300) and to submit certain expenses of the Master Fund for reimbursement by OM Group under the F&G Stock Purchase Agreement. The Transfer Agreement and the transactions contemplated thereby, including the F&G Stock Purchase Agreement, was approved by HGI s Board of Directors upon a determination by a special committee (the FGL Special Committee) comprised solely of directors who were independent under the rules of the NYSE and represented by independent counsel and other advisors, that it was in the best interests of HGI and its stockholders (other than the Master Fund and its affiliates) to enter into the Transfer Agreement and proceed with the Insurance Transaction. On April 6, 2011, the Company completed the FGL Acquisition.

FS Holdco is a holding company, which is the indirect parent company of Front Street. FS Holdco has not engaged in any significant business other than transactions contemplated in connection with the Insurance Transaction.

On May 19, 2011, the FGL Special Committee unanimously determined that it is (i) in the best interests of HGI for Front Street and FGL to enter into a reinsurance agreement (the Reinsurance Agreement), pursuant to which Front Street would reinsure up to $3,000,000 of insurance obligations under annuity contracts of FGL and (ii) in the best interests of HGI for Front Street and Harbinger Capital Partners II LP (HCP II), an affiliate of the Master Fund, to enter into an investment management agreement (the Investment Management Agreement), pursuant to which HCP II would be appointed as the investment manager of up to $1,000,000 of assets securing Front Street s reinsurance obligations under the Reinsurance Agreement, which assets would be deposited in a reinsurance trust account for the benefit of FGL pursuant to a trust agreement (the Trust Agreement). On May 19, 2011, HGI s board of directors approved the Reinsurance Agreement, the Investment Management Agreement, the Trust Agreement and the transactions contemplated thereby. The FGL Special Committee s consideration of the Reinsurance Agreement, the Trust Agreement, and the Investment Management Agreement was contemplated by the terms of the Transfer Agreement. In considering the foregoing matters, the FGL Special Committee was advised by independent counsel and received an independent third-party fairness opinion. As discussed further in Note 18, the Reinsurance Agreement required approval of the Maryland Insurance Administration (the MIA), which ultimately was not received.

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

(17) Insurance Subsidiary Financial Information

The Company s insurance subsidiaries file financial statements with state insurance regulatory authorities and the National Association of Insurance Commissioners (NAIC) that are prepared in accordance with Statutory Accounting Principles (SAP) prescribed or permitted by such authorities, which may vary materially from US GAAP. Prescribed SAP includes the Accounting Practices and Procedures Manual of the NAIC as well as state laws, regulations and administrative rules. Permitted SAP encompasses all accounting practices not so prescribed. The principal differences between statutory financial statements and financial statements prepared in accordance with US GAAP are that statutory financial statements do not reflect VOBA and DAC, some bond portfolios may be carried at amortized cost, assets and liabilities are presented net of reinsurance, contractholder liabilities are generally valued using more conservative assumptions and certain assets are non-admitted. Accordingly, statutory operating results and statutory capital and surplus may differ substantially from amounts reported in the US GAAP basis financial statements for comparable items. For example, in accordance with the US GAAP acquisition method of accounting, the amortized cost of FGL s invested assets was adjusted to fair value as of the FGL Acquisition Date while it was not adjusted for statutory reporting. Thus, the net unrealized gains on a statutory basis were $1,245,445 (unaudited) and $697,825 (unaudited) as of September 30, 2012 and 2011, respectively, compared to net unrealized gains of $1,058,447 and $418,210, respectively, on a US GAAP basis, as reported in Note 4.

The Company s insurance subsidiaries statutory financial statements are based on a December 31 year end. The total statutory capital and surplus of FGL Insurance was $861,588 (unaudited) and $801,945 (unaudited) as of September 30, 2012 and 2011, respectively, and $846,434 and $902,118 as of December 31, 2011 and 2010, respectively. The total adjusted statutory capital of FGL Insurance was $901,371 (unaudited) and $830,225 (unaudited) at September 30, 2012 and 2011, respectively. FGL Insurance had statutory net income of $88,437 (unaudited) and $22,094 (unaudited) for the nine months ended September 30, 2012 and 2011, respectively and $110,264 and $245,849 for the years ended December 31, 2011 and 2010, respectively.

Life insurance companies are subject to certain Risk-Based Capital (RBC) requirements as specified by the NAIC. The RBC is used to evaluate the adequacy of capital and surplus maintained by an insurance company in relation to risks associated with: (i) asset risk, (ii) insurance risk, (iii) interest rate risk and (iv) business risk. The Company monitors the RBC of FGL s insurance subsidiaries. As of September 30, 2012 and 2011, each of FGL s insurance subsidiaries had exceeded the minimum RBC requirements.

The Company s insurance subsidiaries are restricted by state laws and regulations as to the amount of dividends they may pay to their parent without regulatory approval in any year, the purpose of which is to protect affected insurance policyholders, depositors or investors. Any dividends in excess of limits are deemed extraordinary and require approval. Based on statutory results as of December 31, 2011, in accordance with applicable dividend restrictions, the Company s subsidiaries could pay ordinary dividends of $84,643 to FGL in 2012 less any dividends paid during the 12 month period from the last dividend payment. On September 26, 2012, FGL Insurance paid a dividend to FGL in the amount of $20,000 with respect to its 2011 results. On September 29, 2011 and December 22, 2011, FGL Insurance paid dividends to FGL in the amount of $20,000 and $20,000, respectively, with regard to its 2010 results. Based on its 2011 calendar year statutory results, FGL Insurance is able to declare an ordinary dividend up to $24,643 through September 29, 2012 (taking into account the dividend payments of $20,000 on September 29, 2011, December 22, 2011 and September 26, 2012), and $44,643 after September 29, 2012 (taking into account the dividend payments of $20,000 on December 22, 2011 and September 26, 2012). In addition, after December 22, 2012, FGL Insurance will be able to declare an additional ordinary dividend of $20,000 with respect to its 2011 statutory results (for an aggregate ordinary dividend of $64,643), subject to management s discretion.

(18) Acquisition

FGL

On April 6, 2011, the Company acquired all of the outstanding shares of capital stock of FGL and certain intercompany loan agreements between the seller, as lender, and FGL, as borrower, for cash consideration of

$350,000, which amount could be reduced by up to $50,000 post closing (as discussed further below). The Company incurred $18,300 of expenses related to the FGL Acquisition, including $5,000 of the $350,000 cash purchase price which has been re-characterized as an expense since the seller made a $5,000 expense reimbursement to the Master Fund upon closing of the FGL Acquisition. Such expenses are included in Acquisition and operating expenses in the Consolidated Statement of Operations for the year ended September 30, 2011. The FGL Acquisition continued HGI s strategy of obtaining controlling equity stakes in companies that operate across a diversified set of industries.

Net Assets Acquired

The acquisition of FGL has been accounted for under the acquisition method of accounting which requires the total purchase price to be allocated to the assets acquired and liabilities assumed based on their estimated fair values. The fair values assigned to the assets acquired and liabilities assumed are based on valuations using management s best estimates and assumptions and were preliminary pending the completion of the valuation analysis of selected assets and liabilities. During the measurement period (which is not to exceed one year from the acquisition date), the Company is required to retrospectively adjust the provisional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets or liabilities as of that date. Effective April 1, 2012, the Company finalized such provisional amounts which were previously disclosed as of September 30, 2011.

The following table summarizes the provisional and final amounts recognized at fair value for each major class of assets acquired and liabilities assumed as of the FGL Acquisition Date:

	Provisional Amounts	**Fiscal 2012 Measurement Period Adjustments**	**Final Amounts**
Investments, cash and accrued investment income, including cash acquired of $1,040,470	$ 17,705,419	$	$ 17,705,419
Reinsurance recoverable	929,817	15,246	945,063
Intangible assets (VOBA)	577,163		577,163
Deferred tax assets	256,584	(3,912)	252,672
Other assets	72,801		72,801
Total assets acquired	19,541,784	11,334	19,553,118
Contractholder funds and future policy benefits	18,415,022		18,415,022
Liability for policy and contract claims	60,400		60,400
Note payable	95,000		95,000
Other liabilities	475,285	4,070	479,355
Total liabilities assumed	19,045,707	4,070	19,049,777
Net assets acquired	496,077	7,264	503,341
Cash consideration, net of $5,000 re-characterized as expense	345,000		345,000
Bargain purchase gain	$ 151,077	$ 7,264	$ 158,341

The application of acquisition accounting resulted in a bargain purchase gain of $158,341, which is reflected in the Consolidated Statement of Operations for the year ended September 30, 2011. The amount of the bargain purchase gain is equal to the amount by which the fair value of net assets acquired exceeded the consideration transferred. The Company believes that the resulting bargain purchase gain is reasonable based on the following circumstances: (a) the seller was highly motivated to sell FGL, as it had publicly announced its intention to do so approximately a year prior to the sale, (b) the fair value of FGL s investments and statutory capital increased between the date that the purchase price was initially negotiated and the FGL Acquisition Date, (c) as a further inducement to consummate the sale, the seller waived, among other requirements, any potential upward adjustment of the purchase price for an improvement in FGL s statutory capital between the date of the initially negotiated purchase price and the FGL Acquisition Date and (d) an independent appraisal of FGL s business indicated that its fair value was in excess of the purchase price.

Reinsurance Transactions

As discussed in Note 15, pursuant to the F&G Stock Purchase Agreement on April 7, 2011, FGL recaptured all of the life business ceded to OM Re. OM Re transferred assets with a fair value of $653,684 to FGL in settlement of all of OM Re s obligations under these reinsurance agreements. Such amounts are reflected in FGL s purchase price allocation. Further, on April 7, 2011, FGL ceded on a coinsurance basis a significant portion of this business to Raven Re. Certain transactions related to Raven Re such as the surplus note issued to OMGUK in the principal amount of $95,000, which was used to partially capitalize Raven Re and the Structuring Fee of $13,750 are also reflected in FGL s purchase price allocation. Pursuant to the terms of the Raven Springing Amendment, the amount payable to Wilton at the closing of such amendment was adjusted to reflect the economic performance for the Raven Block from January 1, 2011 until the effective time of the closing of the Raven Springing Amendment. The estimated economic performance for the period from January 1, 2011 to April 6, 2011 was considered in FGL s opening balance sheet and purchase price allocation. Of the ongoing settlement adjustments resolved with Wilton Re, as discussed in Note 15, it was determined that $11,176, less $3,912 of deferred income taxes, related to the pre-acquisition period, and were reflected as measurement period adjustments to the initial purchase price allocation. Such adjustments have been retrospectively reflected in the accompanying consolidated financial statements as of and for the year ended September 30, 2011.

Contingent Purchase Price Reduction

As contemplated by the terms of the F&G Stock Purchase Agreement, Front Street sought to enter into the Reinsurance Agreement with the Company whereby Front Street would reinsure up to $3,000,000 of insurance obligations under annuity contracts of FGL, and HCP II would be appointed the investment manager of up to $1,000,000 of assets securing Front Street s reinsurance obligations under the Reinsurance Agreement. These assets would be deposited in a reinsurance trust account for the benefit of FGL.

The Reinsurance Agreement required the approval of the MIA. The F&G Stock Purchase Agreement provides that the seller may be required to pay up to $50,000 as a post-closing reduction in purchase price if, among other things, the Reinsurance Agreement is not approved by the MIA or is approved subject to certain restrictions or conditions. FGL received written notice, dated January 10, 2012, from the MIA, rejecting the Reinsurance Agreement, as proposed by the respective parties. HGI is pursuing all available options to recover the full purchase price reduction, including the commencement of litigation against the seller; however, the outcome of any such action is subject to risk and uncertainty and there can be no assurance that any or all of the $50,000 purchase price reduction will be obtained by HGI.

Prior to the receipt of the written rejection notice from the MIA, management believed, based on the facts and circumstances at that time, that the likelihood was remote that the purchase price would be required to be reduced. Therefore a fair value of zero had been assigned to the contingent purchase price reduction as of the FGL Acquisition Date and at each subsequent quarterly remeasurement date through January 1, 2012. Management now believes that it is near certain that the purchase price will be required to be reduced by the full $50,000 amount and has estimated a fair value of $41,000 for the contingent receivable as of September 30, 2012, reflecting appropriate discounts for potential litigation and regulatory action, length of time until expected payment is received and a credit insurance risk premium. Such $41,000 estimated fair value of the contingent receivable has been reflected in the Consolidated Balance Sheet as of September 30, 2012 with a corresponding credit to Gain on contingent purchase price reduction in the Consolidated Statement of Operations for the year ended September 30, 2012. Changes in the estimated fair value of the contingent consideration resulting from events after the acquisition date are accounted for in earnings upon each remeasurement date, until such time as the contingency is resolved.

Intangible Assets

VOBA represents the estimated fair value of the right to receive future net cash flows from in-force contracts in a life insurance company acquisition at the acquisition date. VOBA is being amortized over the expected life of the contracts in proportion to either gross premiums or gross profits, depending on the type of contract. Total gross profits include both actual experience as it arises and estimates of gross profits for future periods. FGL will regularly evaluate and adjust the VOBA balance with a corresponding charge or credit to earnings for the effects of actual gross profits and changes in assumptions regarding estimated future gross profits. The amortization of VOBA is reported in Amortization of intangibles in the Consolidated Statements of Operations. The proportion of the VOBA balance attributable to each of the product groups as of the FGL Acquisition Date was as follows: 80.4% related to FIA s, and 19.6% related to deferred annuities.

Refer to Note 7 for FGL s historical and estimated future amortization of VOBA, net of interest.

Deferred Taxes

The future tax effects of temporary differences between financial reporting and tax bases of assets and liabilities are measured at the balance sheet date and are recorded as deferred income tax assets and liabilities. The acquisition of FGL is considered a non-taxable acquisition under tax accounting criteria, therefore, the tax basis of assets and liabilities reflect an historical (carryover) basis at the FGL Acquisition Date. However, since assets and liabilities reported under US GAAP are adjusted to fair value as of the FGL Acquisition Date, the deferred tax assets and liabilities are also adjusted to reflect the effects of those fair value adjustments. This resulted in shifting FGL into a significant net deferred tax asset position at the FGL Acquisition Date, principally due to the write-off of DAC and the establishment of a significantly lesser amount of VOBA which resulted in reducing the associated deferred tax liabilities and thereby shifting FGL s net deferred tax position. This shift, coupled with the application of certain tax limitation provisions that apply in the context of a change in ownership transaction, most notably Section 382 of the Internal Revenue Code (the IRC), relating to Limitation in Net Operating Loss Carryforwards and Certain Built-in Losses Following Ownership Change, as well as other applicable provisions under Sections 381-384 of the IRC, require FGL to reconsider the realization of FGL s gross deferred tax asset position and the need to establish a valuation allowance against it. Management determined that a valuation allowance against a portion of the gross deferred tax asset (DTA) would be required as of the FGL Acquisition Date.

The components of the net deferred tax assets as of the FGL Acquisition Date (updated for measurement period adjustments) are as follows:

Deferred tax assets:	
DAC	$ 96,764
Insurance reserves and claim related adjustments	401,659
Net operating losses	128,437
Capital losses (carryovers and deferred)	267,468
Tax credits	75,253
Other deferred tax assets	24,066
Total deferred tax assets	993,647
Valuation allowance	(405,370)
Deferred tax assets, net of valuation allowance	588,277
Deferred tax liabilities:	
VOBA	202,007
Investments	121,160
Other deferred tax liabilities	12,438
Total deferred tax liabilities	335,605
Net deferred tax assets	$ 252,672

2011 Results of FGL since the FGL Acquisition Date

The following table presents selected financial information reflecting results for FGL that are included in the Consolidated Statement of Operations for the year ended September 30, 2011:

	For the period April 6, 2011 to September 30, 2011
Total revenues	$ 290,886
Income, net of taxes	$ 23,703

Supplemental Pro Forma Information Unaudited

The following table reflects the Company s unaudited pro forma results as if the FGL Acquisition was completed on October 1, 2009 and the results of FGL had been included in the respective full twelve month periods.

	Year Ended September 30,	
Pro forma:	**2011**	**2010**
Total revenues	$ 976,633	$ 953,911
Net income (loss)	$ 246,670	$ (166,843)

Pro forma total revenues and net income for Fiscal 2011 include the actual reported results of FGL for the approximate six month period subsequent to April 6, 2011. Reported net income also includes the $158,341 non-recurring bargain purchase gain which was recorded as of the FGL Acquisition Date, and reflects the retrospective measurement period adjustments disclosed above.

The pro forma information primarily reflects the following pro forma adjustments applied to FGL s historical results:

Reduction in net investment income to reflect amortization of the premium on fixed maturity securities available-for-sale resulting from the fair value adjustment of these assets;

Reversal of amortization associated with the elimination of FGL s historical DAC;

Amortization of VOBA associated with the establishment of VOBA arising from the acquisition;

Adjustments to reflect the 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, including amortization of the related $13,750 Structuring Fee;

Adjustments to eliminate interest expense on notes payable to seller and add interest expense on the new $95,000 surplus note payable (which was subsequently settled in October 2011); and

Reversal of the change in the deferred tax valuation allowance included in the income tax provision.

Acquisition Related Charges

Acquisition related charges of $18,300 are reflected in Acquisition and operating expenses in the Consolidated Statement of Operations for the year ended September 30, 2011 and relate to the FGL Acquisition. Such charges consist of the $13,300 of expenses reimbursed to the Master Fund discussed in Note 16, and the $5,000 portion of the cash purchase price recharacterized as an expense, as discussed above.

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SCHEDULE I

HARBINGER F&G, LLC AND SUBSIDIARIES

Summary of Investments Other than Investments in Related Parties

September 30, 2012

(In thousands)

	Amortized Cost [(a)]	Fair Value	Amount at which shown in the balance sheet
Fixed maturities:			
Bonds:			
United States Government and government agencies and authorities	$ 1,435,556	$ 1,466,488	$ 1,466,488
States, municipalities and political subdivisions	1,083,774	1,224,554	1,224,554
Foreign governments	672	815	815
Public utilities	2,166,720	2,400,804	2,400,804
Convertibles and bonds with warrants attached			
All other corporate bonds	10,354,332	10,996,252	10,996,252
Redeemable preferred stock			
Total fixed maturities	15,041,054	16,088,913	16,088,913
Equity securities:			
Common stocks:			
Public utilities			
Banks, trust, and insurance companies	67,452	68,692	68,692
Industrial, miscellaneous and all other			
Nonredeemable preferred stock	170,047	179,395	179,395
Total equity securities	237,499	248,087	248,087
Derivative investments	142,123	200,667	200,667
Policy loans	11,758	11,758	11,758
Other long-term investments	7,056	7,056	7,056
Total investments	$ 15,439,490	$ 16,556,481	$ 16,556,481

(a) Represents (i) original cost reduced by repayments and other-than-temporary impairments and adjusted for amortization of premiums and accrual of discounts for fixed maturity securities, (ii) original cost reduced by other-than-temporary impairments for equity securities and (iii) original cost for derivative investments.

See accompanying Independent Auditors Report.

SCHEDULE II

HARBINGER F&G, LLC (Parent Only)

CONDENSED BALANCE SHEETS

(In thousands)

	September 30, 2012	September 30, 2011
ASSETS		
Investments in consolidated subsidiaries	$ 1,026,471	$ 433,041
Notes and accrued interest receivable from insurance subsidiary	224,363	243,918
Contingent purchase price reduction receivable	41,000	
Collateral posted on behalf of insurance subsidiary		49,339
Total assets	$ 1,291,834	$ 726,298
LIABILITIES AND MEMBER S EQUITY		
Amounts due to Harbinger Group, Inc. (Parent)	$	$ 49,339
Accounts payable and accrued expenses	1,053	1,558
Total liabilities	1,053	50,897
Member s equity		
Contributed capital	415,576	379,359
Retained earnings	440,723	136,549
Accumulated other comprehensive income	434,482	159,493
Total member s equity	1,290,781	675,401
Total liabilities and member s equity	$ 1,291,834	$ 726,298

See accompanying Independent Auditors Report.

SCHEDULE II

(continued)

HARBINGER F&G, LLC (Parent Only)

CONDENSED STATEMENTS OF OPERATIONS

(In thousands)

	Year Ended September 30, 2012	2011
Revenues	$	$
Cost of revenues		
Operating expenses:		
General and administrative expenses	666	580
Acquisition related charges		18,300
Total operating expenses	666	18,880
Operating loss	(666)	(18,880)
Other income (expense):		
Equity in net income of subsidiaries	282,931	3,812
Interest income from subsidiary	23,485	15,414
Interest expense	(2,556)	(1,926)
Bargain purchase gain from business acquisition		158,341
Gain on contingent purchase price reduction	41,000	
Other expense, net	(20)	
Income before income taxes	344,174	156,761
Income tax expense		
Net income	$ 344,174	$ 156,761

See accompanying Independent Auditors Report.

SCHEDULE II

(continued)

HARBINGER F&G, LLC (Parent Only)

CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended September 30, 2012	2011
Cash flows from operating activities:		
Net income	$ 344,174	$ 156,761
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Bargain purchase gain from business acquisition		(158,341)
Gain on contingent purchase price reduction	(41,000)	
Equity in net income of subsidiaries	(282,931)	(3,812)
Collateral returned (posted)	49,339	(49,339)
Accrued interest from subsidiary	3,761	4,586
(Decrease) increase in accounts payable and accrued expenses	(498)	1,558
Net cash provided by (used in) operating activities	72,845	(48,587)
Cash flows from investing activities:		
Acquisition of insurance subsidiary		(345,000)
Net repayment of notes from subsidiary	15,794	
Cash capital contributions to subsidiaries	(3,330)	(12,904)
Net cash used in investing activities	12,464	(357,904)
Cash flows from financing activities:		
Cash capital contributions from parent	4,030	377,152
Advances from (repayments to) Harbinger Group Inc.	(49,339)	49,339
Dividends paid	(40,000)	(20,000)
Net cash provided by (used in) financing activities	(85,309)	406,491
Net increase in cash and cash equivalents		
Cash and cash equivalents at beginning of year		
Cash and cash equivalents at end of year	$	$

See accompanying Independent Auditors Report.

SCHEDULE III

HARBINGER F&G, LLC AND SUBSIDIARIES

Supplementary Insurance Information

(In thousands)

	As of or for the year ended September 30, 2012	2011
Life Insurance (single segment):		
Deferred acquisition costs	$ 169,223	$ 38,107
Future policy benefits, losses, claims and loss expenses	3,614,788	3,598,208
Unearned premiums		
Other policy claims and benefits payable	91,082	56,650
Premium revenue	55,297	39,002
Net investment income	716,176	369,840
Benefits, claims, losses and settlement expenses	(777,372)	(247,632)
Amortization of deferred acquisition costs	(15,219)	(899)
Other operating expenses	(119,913)	(72,390)

See accompanying Independent Auditors Report

SCHEDULE IV

HARBINGER F&G, LLC AND SUBSIDIARIES

Reinsurance

(Dollars in thousands)

For the year ended September 30, 2012	Gross Amount	Ceded to other companies	Assumed from other companies	Net Amount	Percentage of amount assumed to net
Life insurance in force	$ 2,436,312	$ (1,929,017)	$ 22,812	$ 530,107	4.30%
Premiums and other considerations:					
Traditional life insurance premiums	$ 297,964	$ (289,846)	$ 47,179	$ 55,297	85.32%
Annuity product charges	117,881	(79,603)		38,278	0.00%
Total premiums and other considerations	$ 415,845	$ (369,449)	$ 47,179	$ 93,575	50.42%

For the year ended September 30, 2011	Gross Amount	Ceded to other companies	Assumed from other companies	Net Amount	Percentage of amount assumed to net
Life insurance in force	$ 2,256,696	$ (1,180,412)	$ 22,641	$ 1,098,925	2.06%
Premiums and other considerations:					
Traditional life insurance premiums	$ 157,772	$ (141,628)	$ 22,858	$ 39,002	58.61%
Annuity product charges	68,436	(18,776)		49,660	0.00%
Total premiums and other considerations	$ 226,208	$ (160,404)	$ 22,858	$ 88,662	25.78%

See accompanying Independent Auditors Report

3. HGI FUNDING LLC FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

Independent Auditors Report

The Board of Directors

HGI Funding LLC:

We have audited the accompanying balance sheets of HGI Funding LLC (the Company) as of September 30, 2012 and 2011 and the related statements of operations, member s equity, and cash flows for the year ended September 30, 2012 and the period from January 12, 2011 (Inception) through September 30, 2011. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of September 30, 2012 and 2011, and the results of their operations and their cash flows for the year ended September 30, 2012 and the period from January 12, 2011 (Inception) through September 30, 2011 in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

New York, New York

November 27, 2012

HGI FUNDING LLC

BALANCE SHEETS

(In thousands)

	September 30, 2012	September 30, 2011
ASSETS		
Investments, at fair value (Notes 4 and 5):		
Non-affiliates	$ 146,842	$ 274,750
Affiliate	71,174	
	218,016	274,750
Cash and cash equivalents	9,337	38,512
Broker receivable (Note 2)		14,874
Dividends and interest receivable		111
Total assets	$ 227,353	$ 328,247
LIABILITIES AND MEMBER S EQUITY		
Securities sold, not yet purchased (Note 2)	$	$ 296
Broker payable (Note 2)	4	4,465
Other liabilities (Note 2)	4,442	14,492
Total liabilities	4,446	19,253
Commitments and contingencies (Note 7)		
Member s equity:		
Contributed capital	262,232	350,000
Accumulated deficit	(39,325)	(41,006)
Total member s equity	222,907	308,994
Total liabilities and member s equity	$ 227,353	$ 328,247

See accompanying notes to financial statements.

HGI FUNDING LLC

STATEMENTS OF OPERATIONS

(In thousands)

	Year Ended September 30, 2012	Period from January 12, 2011 (Inception) through September 30, 2011
Investment income:		
Dividend and interest income:		
Non-affiliates	$ 5,041	$ 344
Affiliate	1,779	
	6,820	344
Expenses:		
Investment fees	118	10
Interest expense	96	38
General and administrative expenses	232	
Total expenses	446	48
Net investment income	6,374	296
Realized and unrealized gains and losses on investments:		
Net realized gains (losses) on sale of investments	(20,500)	2,273
Unrealized gain on investment in affiliate	17,120	
Net unrealized losses on investments in non-affiliates	(2,048)	(42,965)
Net realized and unrealized foreign exchange gains (losses) on investments	1,078	(1,504)
Net realized and unrealized foreign exchange gains (losses) on cash and futures contracts	(343)	894
Net recognized losses on investments	(4,693)	(41,302)
Income (loss) before income taxes	1,681	(41,006)
Income tax expense (Note 6)		
Net income (loss)	$ 1,681	$ (41,006)

See accompanying notes to financial statements.

HGI FUNDING LLC

STATEMENTS OF MEMBER S EQUITY

(In thousands)

	Contributed Capital	Accumulated Deficit	Total Member s Equity
Balances at January 12, 2011 (Inception)	$	$	$
Cash capital contributions from Harbinger Group Inc.	350,000		350,000
Net loss and comprehensive loss		(41,006)	(41,006)
Balances at September 30, 2011	$ 350,000	$ (41,006)	$ 308,994
Return of capital to Harbinger Group Inc.	(88,000)		(88,000)
Contributed capital from Harbinger Group Inc. for unreimbursed management services (Note 8)	232		232
Net income and comprehensive income		1,681	1,681
Balances at September 30, 2012	$ 262,232	$ (39,325)	$ 222,907

See accompanying notes to financial statements.

HGI FUNDING LLC

STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended September 30, 2012	Period from January 12, 2011 (Inception) through September 30, 2011
Cash flows from operating activities:		
Net income (loss)	$ 1,681	$ (41,006)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Net realized and unrealized losses on investments	5,428	40,692
Realized and unrealized foreign exchange (gains) losses on investments	(1,078)	1,504
Cost of trading securities acquired for resale	(643,763)	(770,453)
Proceeds from trading securities sold	766,120	756,986
Contributed capital from Harbinger Group Inc. for unreimbursed management services	232	
Changes in operating assets and liabilities:		
Broker receivable	14,874	(14,874)
Dividends and interest receivable	111	(111)
Broker payable	(4,461)	4,465
Other liabilities	(10,050)	14,492
Net cash provided by (used in) operating activities	129,094	(8,305)
Cash flows from investing activities:		
Cost of investments acquired for holding	(122,289)	(332,715)
Purchase of common stock of an affiliate	(54,054)	
Proceeds from sales of investments acquired for holding	106,074	29,532
Net cash used in investing activities	(70,269)	(303,183)
Cash flows from financing activities:		
Return of capital to Harbinger Group Inc.	(88,000)	
Capital contributions		350,000
Net cash provided by (used in) financing activities	(88,000)	350,000
Net (decrease) increase in cash and cash equivalents	(29,175)	38,512
Cash and cash equivalents at beginning of period	38,512	
Cash and cash equivalents at end of period	$ 9,337	$ 38,512
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 96	38
Cash paid for income taxes		

See accompanying notes to financial statements.

HGI FUNDING LLC

NOTES TO FINANCIAL STATEMENTS

(Amounts in thousands, except per share figures)

(1) Basis of Presentation and Nature of Business

HGI Funding LLC (HGI Funding or the Company) is a direct, wholly-owned subsidiary of Harbinger Group Inc. (HGI). HGI is a diversified holding company focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries. HGI s shares of common stock trade on the New York Stock Exchange (NYSE) under the symbol HRG.

HGI Funding, a Delaware Limited Liability Company, was formed on January 12, 2011 to manage a portion of HGI s available cash by investing in equity and debt instruments and to acquire positions in potential acquisition targets. The Company operates in one segment and has a fiscal year-end of September 30. Fiscal 2012 represents the year ended September 30, 2012. Fiscal 2011 represents the period from January 12, 2011 through September 30, 2011.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

(2) Significant Accounting Policies and Practices

The following is a summary of significant accounting policies followed by the Company.

Investments

The Company s investments consist of marketable equity and debt securities classified as trading and carried at fair value with unrealized gains and losses recognized in earnings, including certain securities for which the Company has elected the fair value option under Accounting Standards Codification (ASC) Topic 825, *Financial Instruments,* which would otherwise have been classified as available-for-sale or an equity method investment. Investment transactions are accounted for as of the trade date and any realized gains or losses from such transactions are calculated on a first in, first out (FIFO) basis and are included in the appropriate caption in the Statements of Operations.

The Company s investments in marketable equity securities classified as trading and carried at fair value include common stock of Spectrum Brands Holdings, Inc. (Spectrum Brands), an affiliated company under common control of the Company s parent, HGI. The Company held 3.46% of Spectrum Brands outstanding common stock as of September 30, 2012 and had two common directors on Spectrum Brands board of directors. As a result, the Company had significant influence over the financial and operating decisions of Spectrum Brands. As a consequence of having significant influence, the Company s interest in Spectrum Brands is considered an equity method investment under ASC Topic 323, *Investments Equity Method and Joint Ventures*, for which the Company has elected the fair value option under ASC Topic 825. The Company did not hold any Spectrum Brands stock at September 30, 2011.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents. The Company did not hold any such cash equivalent instruments as of September 30, 2012 or 2011.

Broker Receivable and Broker Payable

Broker receivable includes amounts receivable for securities not yet delivered by the Company to the purchaser prior to the settlement date. Broker payable includes amounts payable for securities not yet received by the Company prior to the settlement date.

Securities Sold, Not Yet Purchased

Securities sold, not yet purchased consist of equity and debt securities that the Company has sold short. In order to facilitate a short sale, the Company borrows the securities from a third party and delivers the securities to the buyer. The Company will be required to cover its short sale in the future through the purchase of the security in the market at the prevailing market price and deliver it to the counterparty from which it borrowed. The Company is exposed to a loss to the extent that the security price increases during the time from when the Company borrowed the security to when the Company purchases it in the market to cover the short sale.

The Company did not hold any securities sold, not yet purchased as of September 30, 2012. As of September 30, 2011, the Company had securities sold, not yet purchased with a cost basis of $305 and accumulated net unrealized loss of $9.

Other Liabilities

Other liabilities consist of cash short balances payable for unsettled securities and margin transactions held at the clearing brokers.

Revenue Recognition

Dividends and interest income are recorded in Dividend and interest income and are recognized when earned. Amortization of premiums and accretion of discounts on investments in fixed maturity securities are reflected in Dividend and interest income over the contractual terms of the investments in a manner that produces a constant effective yield.

Foreign Currency

Foreign currency balances that are monetary items have been remeasured into U.S. Dollars at the rate of exchange existing at the respective balance sheet date. Foreign currency transactions are remeasured into U.S. Dollars at the rate of exchange on the date of the transaction. Any realized or unrealized foreign exchange remeasurements are included in the appropriate caption in the Statements of Operations.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or accumulated deficit.

(3) Significant Risks and Uncertainties

Use of Estimates

The preparation of financial statements in conformity with US 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 those estimates.

Credit Risk

Credit risk arises from the potential inability of counterparties to perform under the terms of the contract. The maximum amount of credit risk loss is represented by the carrying amounts of investments.

Bankruptcy or insolvency of security custodians may cause the Company s rights to be delayed with respect to the cash and cash equivalents and investments held in the custodial relationship. The Company monitors the credit quality and financial position of its custodians, and should it decline significantly, the Company will move cash holdings and custodial relationships to another institution. The Company has a policy to only enter into custodial relationships with financial institutions with a Standard & Poor s rating of at least A when it is designated.

Market Risk

Market risk is the risk of loss of fair value resulting from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates and equity prices. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial instruments are traded.

The Company is exposed to equity price risk since it invests in marketable equity securities, which as of September 30, 2012 and 2011 are all classified as trading securities. The Company follows an investment policy approved by the board of directors of HGI which sets certain restrictions on the amounts and types of investments it may make.

Investment Concentration Risk

As of September 30, 2012, the Company s portfolio was primarily comprised of equity securities of three companies in the energy sector, with an aggregate fair value of $146,498, or 67% of the Company s invested assets, and its investment in Spectrum Brands (consumer products sector), with a fair value of $71,174, or 33% of invested assets.

(4) Investments

The Company s investments are summarized as follows:

	September 30,	
	2012	**2011**
Trading:		
Marketable equity securities	$ 218,016	$ 262,085
Marketable debt securities		12,665
Total	$ 218,016	$ 274,750

Included in marketable equity securities as of September 30, 2012, above, were 1,779 shares of Spectrum Brands, an affiliate under common control, an equity method investee carried at fair market value ($71,174 as of September 30, 2012) using the fair value option under ASC Topic 820. The increase in the fair market value of the Company s investment in Spectrum Brands for the year ended on September 30, 2012 of $17,120 is reported in earnings as Unrealized gain on investment in affiliate. There were $27,884 and $44,030 of net unrealized losses recognized in Investments that relate to trading securities held at September 30, 2012 and 2011, respectively, including the $17,120 unrealized gain on the Company s investment in Spectrum Brands at September 30, 2012.

The following table presents summarized financial information derived from Spectrum Brands consolidated financial statements:

	September 30,	
	2012	**2011**
Balance sheet data:		
Current assets	$ 1,061,427	$ 1,048,289
Non-current assets	2,690,222	2,578,417
Current liabilities	610,631	606,912
Non-current liabilities	2,151,923	2,001,297
Stockholder s equity	989,095	1,018,497

	Year ended September 30, 2012	2011
Operating data:		
Net sales	$ 3,252,435	$ 3,186,916
Gross profit	1,115,678	1,128,867
Operating income	301,746	227,944
Net income (loss)	48,572	(75,171)
Basic net income (loss) per common share	0.94	(1.47)
Diluted net income (loss) per common share	0.91	(1.47)
Dividends paid per common share	1.00	

(5) Fair Value of Financial Instruments

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

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

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

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

The carrying amounts and estimated fair values of the Company s financial instruments for which the disclosure of fair values is required, including financial assets and liabilities measured and carried at fair value on a recurring basis, are summarized according to the hierarchy previously described as follows:

	September 30, 2012				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Investments	$ 218,016	$	$	$ 218,016	$ 218,016
Cash and cash equivalents	9,337			9,337	9,337
Total financial assets	$ 227,353	$	$	$ 227,353	$ 227,353
Liabilities					
Other liabilities (cash short positions)	$ 4,442	$	$	$ 4,442	$ 4,442
Total financial liabilities	$ 4,442	$	$	$ 4,442	$ 4,442

	September 30, 2011				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Investments	$ 238,062	$ 36,688	$	$ 274,750	$ 274,750
Cash and cash equivalents	38,512			38,512	38,512
Total financial assets	$ 276,574	$ 36,688	$	$ 313,262	$ 313,262
Liabilities					
Securities sold, not yet purchased	$ 296		$	$ 296	$ 296
Other liabilities (cash short positions)	14,492			14,492	14,492
Total financial liabilities	$ 14,788	$	$	$ 14,788	$ 14,788

The carrying amounts of broker receivables and payables as well as dividend and interest receivable approximate fair value due to their short duration and, accordingly, they are not presented in the table above. The fair values of investments, cash and cash equivalents, securities sold, not yet purchased and cash short positions, which are included in other liabilities, are generally based on quoted or observed market prices.

(6) Income Taxes

HGI Funding is a limited liability company wholly owned by HGI. For income tax purposes, the Company is a disregarded entity. Accordingly, the results of its operations are taxed as if the Company were part of HGI. As a result, income tax expense (benefit) is not recorded in the Company s financial statements.

If the Company were a separate taxable entity, its income tax expense would be computed in accordance with ASC Topic 740, *Income Taxes*, and, on a pro forma basis, would have been $8,615 for the period ended September 30, 2012, of which $835 would have been current and $7,780 would have been deferred. On a pro forma basis, for the period ended September 30, 2011, income tax expense would have been $1,376, all of which would have been current.

(7) Commitments and Contingencies

The Company does not have any commitments or contingencies that it believes may be material to its financial statements.

(8) Related Party Transactions

Since its inception, the Company has utilized the services of the management and staff of HGI and Harbinger Capital Partners, an affiliate of HGI. As many of these transactions are conducted between entities under common control, amounts charged for these services have not necessarily been based upon arms-length negotiations. It is not practicable to determine whether the amounts charged for such services represent amounts that might have been incurred on a stand-alone basis for the Company. For Fiscal 2012, the Company recorded $232 as contributed capital for these services. For Fiscal 2011, the Company incurred an inconsequential amount of management expenses.

During the year ended September 30, 2012, the Company acquired 1,779 shares of common stock of Spectrum Brands on the open market for an aggregate cost of $54,054.

(9) Subsequent Events

The Company evaluated subsequent events through the date when these financial statements were issued. During this period, the Company did not have any material recognizable, or unrecognizable, subsequent events, other than the following matter:

On October 22, 2012, the Company made a return of capital of $91,000 to HGI, the Company s sole member, representing principally proceeds from the subsequent sale of one of the Company s significant investments in the energy sector.

PART IV

Item 15. ***Exhibits, Financial Statements and Schedules***
(a) *List of Documents Filed*

1) *Financial Statements*

See Index to Consolidated Financial Statements on Page F-1 following this Part IV.

2) *Financial Statement Schedules*

Schedule I Summary of Investments Other than Investments in Related Parties

Schedule II Condensed Financial Information of Registrant

Schedule III Supplementary Insurance Information

Schedule IV Reinsurance

All other schedules have been omitted since they are either not applicable or the information is contained within the accompanying consolidated financial statements or the financial schedules included pursuant to Rule 3-16 of Section S-X as noted under Item 8.

(b) *List of Exhibits.* The following is a list of exhibits filed, furnished or incorporated by reference as a part of this Annual Report on Form 10-K/A.

Exhibit No.	Description of Exhibits
2.1	Contribution and Exchange Agreement, dated as of September 10, 2010, by and among Harbinger Group Inc., Harbinger Capital Partners Master Fund I, Ltd., Harbinger Capital Partners Special Situations Fund, L.P. and Global Opportunities Breakaway Ltd. (incorporated herein by reference to Exhibit 2.1 to the Company s Current Report on Form 8-K filed September 14, 2010 (File No. 1-4219)).
2.2	Amendment, dated as of November 5, 2010, to the Contribution and Exchange Agreement, dated as of September 10, 2010, by and among Harbinger Group Inc., Harbinger Capital Partners Master Fund I, Ltd., Harbinger Capital Special Situations Fund, L.P. and Global Opportunities Breakaway Ltd. (incorporated herein by reference to Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 filed November 9, 2010 (File No. 1-4219)).
2.3	Unit Purchase and Contribution Agreement dated as of November 5, 2012 by and among EXCO Resources, Inc., EXCO Operating Company, LP, EXCO/HGI JV Assets, LLC, and HGI Energy Holdings, LLC (incorporated herein by reference to Exhibit 2.1 to the Company s Current Report on Form 8-K filed November 9, 2012 (File No. 1-4219)).
3.1	Certificate of Incorporation of Harbinger Group Inc. (incorporated herein by reference to Exhibit 3.1 to the Company s Current Report on Form 8-K filed December 28, 2009 (File No. 1-4219)).
3.2	Bylaws of Harbinger Group Inc. (incorporated herein by reference to Exhibit 3.2 to the Company s Current Report on Form 8-K filed December 28, 2009 (File No. 1-4219)).
4.1	Indenture governing the 10.625% Senior Secured Notes due 2015, dated as of November 15, 2010, by and among Harbinger Group Inc. and Wells Fargo, National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-4 filed January 28, 2011, as amended (File No. 333-171924)).
4.2	Form of Exchange Note (incorporated herein by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-4 filed January 28, 2011, as amended (File No. 333-171924)).

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Exhibit No.	Description of Exhibits
4.3	Registration Rights Agreement, dated as of November 16, 2010, between Harbinger Group Inc. and certain initial purchasers named therein (incorporated herein by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-4 filed January 28, 2011, as amended (File No. 333-171924)).
4.4	Security Agreement, dated as of January 7, 2011, between Harbinger Group Inc. and Wells Fargo Bank, National Association (incorporated herein by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-4 filed January 28, 2011, as amended (File No. 333-171924)).
4.5	Collateral Trust Agreement, dated as of January 7, 2011, between Harbinger Group Inc. and Wells Fargo Bank, National Association (incorporated herein by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-4 filed January 28, 2011, as amended (File No. 333-171924)).
4.6	Registration Rights Agreement, dated as of September 10, 2010, by and among Harbinger Group Inc., Harbinger Capital Partners Master Fund I, Ltd., Harbinger Capital Partners Special Situations Fund, L.P. and Global Opportunities Breakaway Ltd. (incorporated herein by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed September 14, 2010 (File No. 1-4219)).
4.7	Certificate of Designation of Series A Participating Convertible Preferred Stock of Harbinger Group Inc., adopted on May 12, 2011 (incorporated herein by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed May 13, 2011 (File No. 1-4219)).
4.8	Registration Rights Agreement, dated as of May 12, 2011, by and among Harbinger Group Inc., CF Turul LLC, an affiliate of funds managed by Fortress Investment Group LLC or its affiliates, Providence TMT Debt Opportunity Fund II, L.P., PECM Strategic Funding L.P. and Wilton Re Holdings Limited (incorporated herein by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed May 13, 2011 (File No. 1-4219)).
4.9	Supplemental Indenture, dated June 22, 2011, to the indenture governing the Company s 10.625% Senior Secured Notes due 2015, dated November 15, 2010, by and between the Company and Wells Fargo Bank, National Association, a national banking association, as trustee (incorporated herein by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed June 22, 2011 (File No. 1-4219)).
4.10	Second Supplemental Indenture, dated as of June 28, 2011, to the indenture governing the Company s 10.625% Senior Secured Notes due 2015, dated as of November 15, 2010, by and between the Company and Wells Fargo Bank, National Association, a national banking association, as trustee (incorporated herein by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed June 28, 2011 (File No. 1-4219)).
4.11	Certificate of Designation of Series A-2 Participating Convertible Preferred Stock of Harbinger Group Inc. (incorporated herein by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed August 5, 2011 (File No. 1-4219)).
4.12	Certificate of Amendment of Certificate of Designation of Series A Participating Convertible Preferred Stock of Harbinger Group Inc. (incorporated herein by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K filed August 5, 2011 (File No. 1-4219)).
10.1	Zapata Supplemental Pension Plan effective as of April 1, 1992 (incorporated herein by reference to Exhibit 10(b) to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 1992 (File No. 1-4219)).
10.2	Zapata Amended and Restated 1996 Long-Term Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed January 3, 2007 (File No. 1-4219)).

Exhibit No.	Description of Exhibits
10.3	Investment and Distribution Agreement between Zap.Com and Zapata (incorporated herein by reference to Exhibit No. 10.1 to Zap.Com s Registration Statement on Form S-1 filed April 13, 1999, as amended (File No. 333-76135)).
10.4	Services Agreement between Zap.Com and Zapata (incorporated herein by reference to Exhibit No. 10.2 to Zap.Com s Registration Statement on Form S-1 filed April 13, 1999, as amended (File No. 333-76135)).
10.5	Tax Sharing and Indemnity Agreement between Zap.Com and Zapata (incorporated herein by reference to Exhibit No. 10.3 to Zap.Com s Annual Report on Form 10-K for the year ended December 31, 2007 filed March 7, 2008 (File No. 000-27729)).
10.6	Registration Rights Agreement between Zap.Com and Zapata (incorporated herein by reference to Exhibit No. 10.4 to Zap.Com s Registration Statement on Form S-1 filed April 13, 1999, as amended (File No. 333-76135)).
10.7	Form of February 28, 2003 Indemnification Agreement by and among Zapata and the directors and officers of the Company (incorporated herein by reference to Exhibit 10(q) to the Company s Annual Report on Form 10-K for the year ended December 31, 2002 filed March 26, 2003 (File No. 1-4219)).
10.8	Form of March 1, 2002 Director Stock Option Agreement by and among Zapata and the non-employee directors of the Company (incorporated herein by reference to Exhibit 10(r) to the Company s Annual Report on Form 10-K for the year ended December 31, 2002 filed March 26, 2003 (File No. 1-4219)).
10.9	Summary of Zapata Corporation Senior Executive Retiree Health Care Benefit Plan (incorporated herein by reference to Exhibit 10(u) to the Company s Annual Report on Form 10-K for the year ended December 31, 2006 filed March 13, 2007 (File No. 1-4219)).
10.10	Form of Indemnification Agreement by and among Zapata and Zap.Com Corporation and the Directors or Officers of Zapata and Zap.Com Corporation. (incorporated herein by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 31, 2009 filed November 4, 2009 (File No. 1-4219)).
10.11	Form of Indemnification Agreement by and among Zapata and the Directors or Officers of Zapata only (incorporated herein by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarter ended September 31, 2009 filed November 4, 2009 (File No. 1-4219)).
10.12	Form of Indemnification Agreement by and among Harbinger Group Inc. and its Directors or Officers (incorporated herein by reference to Exhibit 10.12 to the Company s Annual Report on Form 10-K for the year ended December 31, 2009 filed March 9, 2010 (File No. 1-4219)).
10.13	Employment Agreement, dated as of the 24th day of December, 2009, by and between Francis T. McCarron and Harbinger Group Inc., a Delaware corporation (incorporated herein by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed December 28, 2009 (File No. 1-4219)).
10.14	Management and Advisory Services Agreement, entered into as of March 1, 2010, by and between Harbinger Capital Partners LLC, a Delaware limited liability company, and Harbinger Group Inc. (incorporated herein by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed March 5, 2010 (File No. 1-4219)).
10.15	Form of lock-up letter delivered to Harbinger Group Inc. by Harbinger Capital Partners Master Fund I, Ltd., Harbinger Capital Partners Special Situations Fund, L.P. and Global Opportunities Breakaway Ltd. to Harbinger Group Inc. (incorporated herein by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed September 14, 2010 (File No. 1-4219)).

Exhibit No.	Description of Exhibits
10.16	Stockholder Agreement, dated as of February 9, 2010, by and among Harbinger Capital Partners Master Fund I, Ltd., Harbinger Capital Partners Special Situation Fund, L.P., Global Opportunities Breakaway Ltd. and Spectrum Brands Holdings, Inc.; Harbinger Group Inc. became a party to this agreement on January 7, 2011 (incorporated herein by reference to Exhibit 99.1 to the Company s Current Report on Form 8-K filed November 5, 2010 (File No. 1-4219)).
10.17	Registration Rights Agreement, dated as of February 9, 2010, by and among Harbinger Capital Partners Master Fund I, Ltd., Harbinger Capital Partners Special Situations Fund, L.P., Global Opportunities Breakaway Ltd., Avenue International Master, L.P., Avenue Investments, L.P., Avenue Special Situations Fund IV, L.P., Avenue Special Situations Fund V, L.P., Avenue-CDP Global Opportunities Fund, L.P. and Spectrum Brands Holdings, Inc.; Harbinger Group Inc. became a party to this agreement on January 7, 2011 (incorporated herein by reference to Exhibit 99.2 to the Company s Current Report on Form 8-K filed November 5, 2010 (File No. 1-4219)).
10.18	Form of Indemnification Agreement by and among Harbinger Group Inc. and its Directors and Officers, as amended and restated on February 23, 2011 (incorporated herein by reference to Exhibit 10.21 to the Company s Annual Report on Form 10-K for the year ended December 31, 2010 filed March 11, 2011 (File No. 1-4219)).
10.19	Transfer Agreement, dated as of March 7, 2011, between Harbinger Group Inc., a Delaware corporation, and Harbinger Capital Partners Master Fund I, Ltd., a Cayman Islands exempted limited company (incorporated herein by reference to Exhibit 2.1 to the Company s Current Report on Form 8-K filed March 9, 2011 (File No. 1-4219)).
10.20	First Amended and Restated Stock Purchase Agreement, dated as of February 17, 2011, between Harbinger OM, LLC, a Delaware limited liability company, and OM Group (UK) Limited, a private limited company incorporated in England and Wales (incorporated herein by reference to Exhibit 2.2 to the Company s Current Report on Form 8-K filed March 9, 2011 (File No. 1-4219)).
10.21	Letter Agreement, dated April 6, 2011, between OM Group (UK) Limited and Harbinger OM, LLC; Letter Agreement, dated April 6, 2011, from Old Mutual PLC and OM Group (UK) Limited to Harbinger OM, LLC (incorporated herein by reference to Exhibits 2.2 and 2.3 to the Company s Current Report on Form 8-K filed April 11, 2011 (File No. 1-4219)).
10.22	Securities Purchase Agreement, dated as of May 12, 2011, by and among Harbinger Group Inc., CF Turul LLC, an affiliate of funds managed by Fortress Investment Group LLC or its affiliates, Providence TMT Debt Opportunity Fund II, L.P., PECM Strategic Funding L.P. and Wilton Re Holdings Limited (incorporated herein by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed May 13, 2011 (File No. 1-4219)).
10.23	Securities Purchase Agreement, dated as of August 1, 2011, by and among Harbinger Group Inc., Quantum Partners LP, a Cayman Islands exempted limited partnership, JHL Capital Group Master Fund L.P., a Cayman Islands exempted limited partnership, and certain funds and/or accounts managed and/or advised by DDJ Capital Management, LLC and First Amendment to Securities Purchase Agreement, dated as of August 4, 2011, by and among the parties to the Securities Purchase Agreement dated as of August 1, 2011 and Luxor Capital Partners, LP, a Delaware limited partnership, Luxor Wavefront, LP, a Delaware limited partnership, Luxor Capital Partners Offshore Fund, LP, a Cayman Islands limited partnership, OC 19 Master Fund, L.P. LCG, a Cayman Islands limited partnership, and GAM Equity Six Inc., a British Virgin Islands company (incorporated herein by reference to Exhibits 10.1 and 10.2 to the Company s Current Report on Form 8-K filed August 5, 2011 (File No. 1-4219)).
10.24	Employment Agreement, dated as of January 9, 2012, by and between Harbinger Group Inc. and Omar Asali (incorporated herein by reference to Exhibit 10.1 to the Company s Amendment No. 1 to Annual Report on Form 10-K filed January 30, 2012 (File No. 1-4219)).

Exhibit No.	Description of Exhibits
10.25	Employment Agreement, dated as of January 11, 2012, by and between Harbinger Group Inc. and David M. Maura (incorporated herein by reference to Exhibit 10.2 to the Company s Amendment No. 1 to Annual Report on Form 10-K filed January 30, 2012 (File No. 1-4219)).
10.26	Harbinger Group Inc. 2011 Omnibus Equity Award Plan, adopted as of September 15, 2011 (incorporated herein by reference to Exhibit 10.4 to the Company s Amendment No. 1 to Annual Report on Form 10-K filed January 30, 2012 (File No. 1-4219)).
10.27	Harbinger Group Inc. 2011 Omnibus Equity Award Plan Form of Restricted Stock Agreement (incorporated herein by reference to Exhibit 10.5 to the Company s Amendment No. 1 to Annual Report on Form 10-K filed January 30, 2012 (File No. 1-4219)).
10.28	Harbinger Group Inc. 2011 Omnibus Equity Award Plan Form of Employee Nonqualified Option Agreement (incorporated herein by reference to Exhibit 10.6 to the Company s Amendment No. 1 to Annual Report on Form 10-K filed January 30, 2012 (File No. 1-4219)).
10.29	Transition Services Agreement dated as of February 15, 2012, by and between Francis T. McCarron and Harbinger Group Inc., (incorporated herein by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed February 17, 2012 (File No. 1-4219)).
10.30	Employment Agreement dated as of February 24, 2012 by and between Harbinger Group Inc., a Delaware corporation, and Thomas A. Williams (incorporated herein by reference to Exhibit 10.8 to the Company s Quarterly Report on Form 10-Q for the quarter ended April 1, 2012 (File No. 1-4219)).
10.31	Temporary Employment Agreement, dated as of July 13, 2012, by and between Richard Hagerup and Harbinger Group Inc. (incorporated herein by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed July 17, 2012 (File No. 1-4219)).
10.32	Employment Agreement dated as of November 1, 2012 by and between Harbinger Group, Inc. and Michael Sena (incorporated herein by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed November 5, 2012 (File No. 1-4219)).
10.33	Form of Amended and Restated Agreement of Limited Partnership of EXCO/HGI Production Partners, LP by and among EXCO/HGI GP, LLC, EXCO Holding MLP, Inc. and HGI Energy Holdings, LLC (incorporated herein by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed November 9, 2012 (File No. 1-4219)).
10.34	Form of Amended and Restated Limited Liability Company Agreement of EXCO/HGI GP, LLC, by and among EXCO Holding MLP, Inc. and HGI Energy Holdings, LLC (incorporated herein by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed November 9, 2012 (File No. 1-4219)).
10.35	Appalachia Letter Agreement, dated as of November 5, 2012, by and among EXCO Resources, Inc., EXCO Operating Company, LP, HGI Energy Holdings, LLC and Harbinger Group Inc. (incorporated herein by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K filed November 9, 2012 (File No. 1-4219)).
10.36***	Services Agreement, by and between Harbinger Capital Partners LLC and Harbinger Group Inc.
21.1***	Subsidiaries of the Registrant.
23.1***	Consent of KPMG LLP.
31.1*	Certification of CEO Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit No.	Description of Exhibits
31.2*	Certification of CFO Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.****
101.SCH	XBRL Taxonomy Extension Schema.****
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.****
101.DEF	XBRL Taxonomy Definition Linkbase.****
101.LAB	XBRL Taxonomy Extension Label Linkbase.****
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.****

Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to the requirements of Item 15(a)(3) of Form 10-K.

* Filed herewith

** Furnished herewith

*** Exhibit was previously filed with the original Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

**** Exhibit was previously furnished with the original Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 25, 2013

HARBINGER GROUP INC.

By: /s/ THOMAS A. WILLIAMS
Thomas A. Williams

Executive Vice President and Chief Financial Officer