

**FILED**  
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**CIRCUIT COURT**  
**DANE COUNTY, WI**  
**2019CV000982**  
**Honorable Valerie L.**  
**Bailey-Rihn**  
**Branch 3**

**STATE OF WISCONSIN**

**CIRCUIT COURT**  
**BRANCH 3**

**DANE COUNTY**

PLYMOUTH COUNTY RETIREMENT  
ASSOCIATION, Individually and on Behalf of All  
Others Similarly Situated,

Plaintiff,

vs.

SPECTRUM BRANDS HOLDINGS, INC.,  
DAVID M. MAURA, JOSEPH S. STEINBERG,  
GEORGE C. NICHOLSON, CURTIS GLOVIER,  
FRANK IANNA, GERALD LUTERMAN,  
ANDREW A. MCKNIGHT, ANDREW  
WHITTAKER, and HRG GROUP INC.,

Defendants.

Case No. 19 CV 982  
Case Code: 30301 (Money Judgment)  
The Honorable Valerie L. Bailey-Rihn

CLASS ACTION

DEMAND FOR JURY TRIAL

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**AMENDED COMPLAINT FOR VIOLATIONS OF THE SECURITIES ACT OF 1933**

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Plaintiff, Plymouth County Retirement Association (“Plymouth County” or “Plaintiff”), individually and on behalf of all other persons similarly situated, by its undersigned attorneys, alleges the following based upon the investigation of its counsel, which included, *inter alia*, a review and analysis of: (i) the U.S. Securities and Exchange Commission (“SEC”) filings made by HRG Group, Inc. (“HRG”), now known as Spectrum Brands Holdings, Inc. (“Spectrum” or the “Company”), and Spectrum Brands Legacy, Inc. (“Legacy Spectrum”); (ii) public reports and news articles; (iii) research reports by securities and financial analysts; (iv) press releases, transcripts of earnings calls, and other public statements issued and disseminated by the Company; (v) interviews with former Spectrum and Legacy Spectrum employees; and (vi) other publicly available materials and data. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after reasonable opportunity for discovery.

## **I. NATURE AND SUMMARY OF THE ACTION**

1. Spectrum was once one of the most valuable companies in the United States and a member of the Fortune 500. Soon after the July 13, 2018 merger between Legacy Spectrum and HRG (the “Merger”), however, Spectrum disclosed materially adverse and previously unknown conditions at the Company (what one analyst dubbed a “litany of negative surprises”), including inventory and supply chain issues, a \$92.5 million goodwill impairment at one of the Company’s four operating segments, and significant operating inefficiencies. Unbeknownst to investors, these issues pre-dated the Merger, as multiple former employees (and even the Company) have confirmed. Another analyst explained that Spectrum’s “script has now changed entirely,” and investors have lost confidence in the Company. As a result, Spectrum’s common stock has lost **30 percent of its value** from its Merger price to its closing share price on the date this Action was filed. Spectrum’s common stock never recovered.

2. The claims alleged herein are strict liability claims for violations of Sections 11, 12(a)(2), and 15 of the Securities Act of 1933 (the “Securities Act”), 15 U.S.C. §§ 77k, 77l, and 77o, relating to the Merger between Legacy Spectrum and HRG. This securities class action is brought on behalf of Legacy Spectrum shareholders and other investors who acquired Spectrum common stock pursuant or traceable to the Registration Statement (as defined herein) for the common stock issued in the Merger, and who were damaged thereby. This Action is brought against the issuer of the common stock at issue in this Action, HRG and Spectrum (HRG’s successor-in-interest), and the Individual Defendants (as defined herein) who signed the Registration Statement.

3. The Securities Act was passed by Congress in the hopes of restoring investor confidence after corporate scandals and the stock market crash of 1929. It requires that those who offer securities to the investing public do so on the basis of accurate and fulsome disclosures. The Securities Act creates liability for false, misleading, and incomplete statements made in connection with securities offerings in order to protect investors and maintain confidence in our public markets.

4. Prior to the Merger, Spectrum was a holding company doing business as HRG Group, Inc. that conducted its operations principally through its operating subsidiaries. HRG’s only substantial business holding was its controlling interest in Legacy Spectrum (that HRG reported as its Consumer Products segment), which represented virtually all of HRG’s earnings. Therefore, Legacy Spectrum’s and HRG’s financial results, which were incorporated by reference into the Registration Statement, were of paramount importance to Legacy Spectrum shareholders and other investors who received new Spectrum shares pursuant or traceable to the Registration Statement.

5. Headquartered in Middleton, Wisconsin, Spectrum is a global branded consumer products company that manufactures, markets, and distributes a wide array of products, including for example: plumbing and hardware, pet supplies, household products and repellents, and auto care goods. Legacy Spectrum, and then Spectrum, was organized into four reporting segments: (i) Hardware and Home Improvement (“HHI”); (ii) Global Pet Supplies (“PET”); (iii) Home and Garden (“H&G”); and (iv) Global Auto Care (“GAC” or “Auto Care”).

6. The Merger was conducted primarily by means of a reverse stock split. In connection with that transaction, HRG, now Spectrum, filed the Registration Statement with the SEC to register and issue approximately 20.9 million shares of common stock. Legacy Spectrum shareholders acquired these newly-registered shares in exchange for their Legacy Spectrum shares. HRG shareholders received approximately 32.7 million shares of Spectrum common stock. The deal valued the Company at approximately \$4.4 billion as of July 13, 2018.

7. In exchange for terminating HRG’s existing shareholders agreement and giving up a controlling interest in Legacy Spectrum, pre-Merger HRG shareholders received a \$200 million cash payment or “upward adjustment,” paid by Legacy Spectrum, thereby draining Legacy Spectrum of its pre-Merger liquidity. Legacy Spectrum shareholders, who became Spectrum shareholders, also assumed approximately \$890 million of HRG’s debt at a higher rate than any of Legacy Spectrum’s other debt. Legacy Spectrum shareholders, as Spectrum shareholders, further incurred approximately \$15 million in Merger transaction fees.

8. Unbeknownst to investors, adverse facts and conditions existed prior to and on the Registration Statement effective date (or RS Effective Date, as defined herein), as evidenced by statements from former Legacy Spectrum and Spectrum employees. For example, a former employee confirmed Legacy Spectrum engaged in gross mismanagement of inventory in its Auto

Care segment. Former employees also confirmed Legacy Spectrum had excess and obsolete inventory, with respect to both raw materials and finished products. Legacy Spectrum conducted a huge inventory build in 2016, but due to poor inventory management, Legacy Spectrum sent “cut orders” to its customers—shipped without some of the products the customers had ordered because Legacy Spectrum could not find the products in their warehouses. This practice angered customers and led to a sales slow-down in 2017 and 2018 due to customers ordering less, with one former employee describing 2017 and 2018 as two years of spectacular poor performance. Legacy Spectrum used its SAP software system to track inventory in real time and show obsolete inventory.

9. As a result and as further alleged below, the Registration Statement for the Merger contained material false and misleading statements of facts and omitted material facts required to be disclosed in order make the statements in the Registration Statement not misleading. There are four general categories of misstatements in the Registration Statement: (i) financial condition; (ii) internal controls; (iii) risk factors; and (iv) adverse trends.

10. *First*, the Registration Statement incorporated by reference false Legacy Spectrum and HRG financial figures, including, for example, materially overstated Income (as defined herein), SBH EBITDA (earnings before interest, taxes, depreciation, and amortization) (as defined herein),<sup>1</sup> Inventories, and Goodwill. Largely due to the build-up of obsolete inventory, Spectrum adjusted these figures downward soon after the Merger (both across its operating segments and on a consolidated basis), demonstrating that Legacy Spectrum’s and HRG’s pre-Merger financial figures, incorporated by reference into the Registration Statement,

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<sup>1</sup> According to Legacy Spectrum’s financial statements filed with the SEC, “Adjusted EBITDA is a non-[generally accepted accounting principles (“GAAP”)] metric used by management that we believe this measure provides useful information to investors because it reflects the ongoing operating performance and trends of our segments....”

were materially overstated. Post-Merger, Spectrum also performed so-called balance sheet “clean up” adjustments to accurately value and divest its Auto Care business in a sale to Energizer Holdings, Inc. (“Energizer”), announced in November 2018. That Spectrum had to “clean up” Auto Care’s balance sheet shows that Auto Care was neither “clean” nor accurately valued previously, and that these adjustments should have been made well before the RS Effective Date in order to accurately value the price of newly-registered shares of Spectrum common stock. Spectrum performed other post-Merger “clean up” adjustments in its other operating segments.

11. **Second**, the Registration Statement incorporated by reference false statements that certified the adequacy of Legacy Spectrum’s and HRG’s internal controls and that management of the respective companies had found their internal control over financial reporting effective based on their review. In light of the undisclosed obsolete inventory build-up and material overstatement of Legacy Spectrum’s and HRG’s financial figures prior to and on the RS Effective Date, Legacy Spectrum’s and HRG’s internal controls already suffered from significant deficiencies that resulted in Spectrum’s failure to disclose materially adverse accounting issues across the Company’s operating segments and on a consolidated basis.

12. **Third**, the Registration Statement included false and misleading risk factors related to Legacy Spectrum (*i.e.*, HRG’s Consumer Products segment) inventory obsolescence because it failed to warn investors about then-existing conditions described herein. In particular, the Registration Statement purported to warn of risks that “may” adversely affect the Company while failing to disclose that these very “risks” had already materialized prior to and on the RS Effective Date. For example, the Registration Statement misled investors by stating: “We **may** face excess and obsolete inventory risk related to non-compliant inventory that we **may** hold for

which there is reduced demand, and we *may* need to write down the carrying value of such inventories.” In fact, these risks had already materialized prior to and on the RS Effective Date.

13. **Fourth**, the Registration Statement failed to disclose an obsolete inventory build-up within its PET, H&G, and GAC operating segments, as well as the adverse trend and uncertainty of inventory accumulation. The Company had an independent, affirmative duty to provide adequate disclosures about adverse conditions, risks, and uncertainties. *See* Item 303 of SEC Regulation S-K, 17 C.F.R. § 229.303 (requiring that the materials incorporated in a Registration Statement disclose all “known trends or uncertainties” reasonably expected to have a material unfavorable impact on the Company’s operations). The Company also had an independent, affirmative duty to discuss “the most significant factors that make the offering speculative or risky” and to “adequately describe[] the risk.” *See* Item 503 of SEC Regulation S-K, 17 C.F.R. § 229.503. Thus, the Company had a duty to disclose material trends and uncertainties (*e.g.*, the obsolete inventory build-up) that it knew or should have reasonably expected would have a materially adverse impact on Spectrum’s business.

14. Mere months after the Merger, Spectrum reported lower-than-expected earnings for its fiscal quarter ended September 30, 2018—the same quarter in which the Merger closed. The Company attributed its disappointing earnings to significant operating losses “primarily due to the [\$92.5 million] write-off from impairment of goodwill” in its Auto Care operating segment. Within the Auto Care segment, the Company also “**wrote off and liquidated excess and obsolete inventory to clean up the balance sheet of that division**, and ... established reserves for a multiyear duty catch-up accrual” to prepare the “Auto Care business for the sale to Energizer at a very healthy state.” With respect to the H&G operating segment, the Company “established an accrual for a legal claim[,] ... took lower vendor rebates, and similar to the Auto Care unit, ...

*wrote off excess and obsolete inventory in this business.*” Regarding the PET operating segment, the Company disclosed “numerous onetime issues” and also “*liquidate[d] some excess and obsolete inventory in the quarter to end ’18 with a cleaner balance sheet in this business.*”

15. As a result of these material undisclosed facts and the false and misleading statements in the Registration Statement, as of the filing date of this Action, Spectrum’s common stock closed at \$57.51 per share—*30 percent less than the \$82.72 per share Merger price.*

## **II. JURISDICTION AND VENUE**

16. The claims alleged herein arise under and pursuant to Sections 11, 12(a)(2), and 15 of the Securities Act, 15 U.S.C. §§ 77k, 77l, and 77o. This Court has jurisdiction over the subject matter of this Action pursuant to Section 22 of the Securities Act, 15 U.S.C. § 77v. Section 22 of the Securities Act expressly prohibits removal of this Action to federal court.

17. This Court has personal jurisdiction over each of the Defendants named herein pursuant to Wis. Stat. Section 801.05 as well as Section 22 of the Securities Act. Spectrum maintains its principal executive offices in Middleton, Wisconsin, engages in substantial and not isolated activities within Wisconsin, and issued the Registration Statement for the Merger. Each of the Individual Defendants, as defined herein: (i) engages in substantial and not isolated activities within Wisconsin; (ii) serves or served as a director, officer or manager of Spectrum; and (iii) signed the Registration Statement for the Merger. The violations of law complained of herein arise out of the acts and omission by each of the Defendants alleged herein, which primarily occurred within this state. The Defendants also caused injury, by the acts and omissions alleged herein, to members of the Class (as defined herein) within Wisconsin by soliciting the Merger from both within and outside the state.

18. Venue is proper in this County pursuant to Wis. Stat. Section 801.50(2)(a) and (c) as well as Section 22 of the Securities Act. Spectrum conducts substantial business and maintains

its principal executive office in Dane County. In addition, a substantial part of the acts and omissions that give rise to the claims asserted herein occurred in and emanated from Dane County.

### **III. THE PARTIES**

#### **A. Plaintiff**

19. Plymouth County Retirement Association is a defined benefits retirement plan based in Plymouth, Massachusetts that provides retirement benefits to more than 9,000 beneficiaries. Plymouth County acquired a total of 7,746 shares of newly-issued Spectrum common stock pursuant to the Registration Statement and was damaged as a result of Defendants' Securities Act violations as alleged herein.

#### **B. Defendants HRG and Spectrum**

20. Defendant HRG Group, Inc. was a holding company that controlled approximately 62 percent of Legacy Spectrum before the Merger. Prior to the Merger, HRG's principal executive offices were located at 450 Park Avenue, 29th Floor, New York, New York 10022. In connection with the Merger, HRG changed its name to Spectrum Brands Holdings, Inc. and issued the newly-registered shares of common stock at issue in this Action to Legacy Spectrum shareholders.

21. Defendant Spectrum Brands Holdings, Inc. (formerly HRG), the issuer of the newly-registered shares of common stock at issue in this Action to Legacy Spectrum shareholders, is a consumer products company incorporated in Delaware with principal executive offices located at 3001 Deming Way, Middleton, Wisconsin 53562. The Company's shares are listed and traded under the ticker symbol "SPB" on the New York Stock Exchange ("NYSE").

### C. Individual Defendants

22. Defendant David M. Maura (“Maura”) was appointed CEO and Executive Chairman of Spectrum’s Board of Directors on the Merger closing date. Prior to the Merger, Defendant Maura was Managing Director and Executive Vice President (“EVP”) of Investments at HRG from October 2011 through November 2016. Defendant Maura was a member of HRG’s Board of Directors from May 2011 until December 2017. Defendant Maura was also interim Chairman and a member of Legacy Spectrum’s Board of Directors since June 2010, non-executive Chairman of Legacy Spectrum’s Board of Directors since July 2011, Executive Chairman of Legacy Spectrum’s Board of Directors since January 2016, and Chief Executive Officer of Legacy Spectrum since April 2018. Defendant Maura signed the Registration Statement as Executive Chairman and CEO of Legacy Spectrum, and the Registration Statement disclosed that Defendant Maura was to become a director of Spectrum.

23. Defendant Joseph S. Steinberg (“Steinberg”) was appointed a member of Spectrum’s Board of Directors on the Merger closing date. Prior to the Merger, Defendant Steinberg was Chairman of HRG’s Board of Directors from December 2014 until the Merger closing date, and CEO of HRG from April 2017 until the Merger closing date. Defendant Steinberg was also a member of Legacy Spectrum’s Board of Directors from February 2015 until the Merger closing date. Defendant Steinberg signed the Registration Statement as Chairman and CEO of HRG, and the Registration Statement disclosed that Defendant Steinberg was to become a director of Spectrum.

24. Defendant George C. Nicholson (“Nicholson”) was Senior Vice President (“SVP”) and Chief Accounting Officer (“CAO”) of HRG from November 2015 until July 13, 2018, Acting Chief Financial Officer (“CFO”) of HRG from January 2016 until January 2017,

and CFO of HRG from January 2017 until July 13, 2018. Defendant Nicholson signed the Registration Statement as SVP, CAO, and CFO of HRG.

25. Defendant Curtis Glovier (“Glovier”) was a member of HRG’s Board of Directors from February 2015 until July 13, 2018. Defendant Glovier signed the Registration Statement as a member of HRG’s Board of Directors.

26. Defendant Frank Ianna (“Ianna”) was a member of HRG’s Board of Directors from April 2013 until July 13, 2018. Defendant Ianna signed the Registration Statement as a member of HRG’s Board of Directors.

27. Defendant Gerald Luterman (“Luterman”) was a member of HRG’s Board of Directors from April 2013 until July 13, 2018. Defendant Luterman signed the Registration Statement as a member of HRG’s Board of Directors.

28. Defendant Andrew A. McKnight (“McKnight”) was a member of HRG’s Board of Directors from July 2016 until July 13, 2018. Defendant McKnight signed the Registration Statement as a member of HRG’s Board of Directors.

29. Defendant Andrew Whittaker (“Whittaker”) was a member of HRG’s Board of Directors from July 2014 until July 13, 2018. Defendant Whittaker signed the Registration Statement as a member of HRG’s Board of Directors.

30. Defendants Maura, Steinberg, Nicholson, Glovier, Ianna, Luterman, McKnight, and Whittaker are referred to collectively herein as the “Individual Defendants.” Each Individual Defendant signed the Registration Statement for the Merger and/or was to become a director of Spectrum. Each Individual Defendant reviewed, edited, and approved the Registration Statement and solicited shareholder approval of the Merger and related corporate actions.

#### IV. SUBSTANTIVE ALLEGATIONS

##### A. Spectrum's History and Business

31. Spectrum is a Middleton, Wisconsin-based diversified global branded consumer products company. The Company manufactures, markets, and/or distributes its products in approximately 160 countries in the North America, Europe, the Middle East and Africa ("EMEA"), Latin America, and Asia-Pacific regions through various trade channels, including retailers, wholesalers and distributors, original equipment manufacturers ("OEMs"), and construction companies.

32. At all relevant times, Legacy Spectrum and then Spectrum were organized into four reporting segments: (i) Hardware and Home Improvement, or HHI; (ii) Global Pet Supplies, or PET; (iii) Home and Garden, or H&G; and (iv) Global Auto Care, or GAC or Auto Care.<sup>2</sup>

33. Spectrum's Hardware and Home Improvement, or HHI, segment consists of three product categories, including: (i) security (a broad range of locksets and door hardware under brand names such as Kwikset and Baldwin); (ii) plumbing (kitchen and bath faucets and accessories under the Pfister brand name); and (iii) hardware (another broad range of products such as hinges, track and sliding door hardware, and gate hardware under the brand names National Hardware and Stanley).

34. Spectrum's Global Pet Supplies, or PET, segment consists of two product categories, including: (i) aquatics (a broad line of products including consumer and commercial aquarium kits, stand-alone tanks, and equipment such as filtration systems, heaters and pumps,

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<sup>2</sup> On January 16, 2018, Legacy Spectrum announced its agreement to sell its Global Battery and Lighting Business (the "Battery Business") to Missouri-based Energizer in a transaction valued at \$2.0 billion in cash. The Battery Business was previously part of Legacy Spectrum's Global Batteries & Appliances ("GBA") reporting segment. The deal later closed on January 2, 2019. On November 15, 2018, Spectrum announced its agreement to also sell its Auto Care business to Energizer in a transaction valued at \$1.25 billion in cash and stock. The deal later closed on January 28, 2019.

fish food, and water management and care under brand names such as Tetra and Marineland); and (ii) companion animal (a variety of specialty pet products such as rawhide chews, dog and cat clean-up, training, health and grooming products, and small animal food and care under brand names such as Nature's Miracle, Littermaid, and IAMS).

35. Spectrum's Home and Garden, or H&G, segment consists of three product categories, including: (i) controls (a variety of outdoor insect and weed control solutions and animal repellents under brand names such as Black Flag and Garden Safe); (ii) household (a broad array of household pest control solutions under the brand names Hot Shot and Black Flag); and (iii) repellents (personal-use pesticides for protection from outdoor nuisance pests under the brand names Cutter and Repel).

36. Spectrum's Global Auto Care, or GAC or Auto Care, segment consisted of three product categories, including: (i) appearance (protectants, wipes, tire and wheel care products, glass cleaners, leather care products, air fresheners, and washes under the Armor All brand name); (ii) performance (fuel and oil additives, functional fluids, and automotive appearance products under the STP brand name); and (iii) A/C recharge (do-it-yourself automotive air conditioner recharge products under the A/C Pro brand name).

37. For the fiscal years ended September 30, 2018 and September 30, 2017, the chart below shows the net sales by segment as a percentage of Spectrum's and Legacy Spectrum's consolidated net sales, respectively:

	<b>Year Ended 9/30/2018</b>	<b>Year Ended 9/30/2017</b>
<b>HHI</b>	44%	25%
<b>PET</b>	26%	16%
<b>H&amp;G</b>	15%	10%
<b>GAC</b>	15%	9%
<b>GBA</b>	--	40%

38. For the quarterly periods ended April 1, 2018 and December 31, 2017 and the fiscal year ended September 30, 2017, the chart below shows Legacy Spectrum's adjusted EBITDA (in millions) by segment:

	<b>Quarter Ended 4/1/2018</b>	<b>Quarter Ended 12/31/2017</b>	<b>Year Ended 9/30/2017</b>
<b>HHI</b>	\$45.5	\$60.0	\$254.4
<b>PET</b>	\$35.7	\$34.1	\$142.7
<b>H&amp;G</b>	\$25.3	\$5.4	\$133.0
<b>GAC</b>	\$19.8	\$14.8	\$148.4
<b>GBA</b>	--	--	\$316.5

39. The foregoing charts demonstrate that, following Spectrum's sale of its Battery Business to Energizer (that previously made up the bulk of Legacy Spectrum's GBA segment, which was subsequently reported as discontinued operations), the remaining four segments each played a key role in sustaining the Company's ongoing operating performance.

40. For the quarterly periods ended April 1, 2018 and December 31, 2017 and the fiscal years ended September 30, 2017, September 30, 2016, and September 30, 2015, the chart below shows Legacy Spectrum's current assets (in millions):

	<b>Quarter Ended 4/1/2018</b>	<b>Quarter Ended 12/31/2017</b>	<b>Year Ended 9/30/2017</b>	<b>Year Ended 9/30/2016</b>	<b>Year Ended 9/30/2015</b>
<b>Cash and cash equivalents</b>	\$135.2	\$168.2	\$168.2	\$275.3	\$247.9
<b>Trade receivables, net</b>	\$337.6	\$266.0	\$526.1	\$482.6	\$498.8
<b>Other receivables</b>	\$24.6	\$19.4	\$43.4	\$55.6	\$87.9
<b>Inventories</b>	\$610.5	\$496.3	\$775.5	\$740.6	\$780.8

	<b>Quarter Ended 4/1/2018</b>	<b>Quarter Ended 12/31/2017</b>	<b>Year Ended 9/30/2017</b>	<b>Year Ended 9/30/2016</b>	<b>Year Ended 9/30/2015</b>
<b>Prepaid expenses and other current assets</b>	\$58.7	\$54.2	\$93.9	\$78.8	\$116.8
<b>Total current assets<sup>3</sup></b>	\$1,166.6	\$1,004.1	\$1,607.1	\$1,632.9	\$1,732.2

41. The foregoing chart demonstrates that, for the two quarterly periods and each of the three fiscal years preceding the Merger, Legacy Spectrum's largest current asset was its Inventories, making up between 45 and 52 percent of Legacy Spectrum's total current assets for each of those periods, respectively. Because Legacy Spectrum's largest asset was its Inventories, inventory management was key to Legacy Spectrum's operating performance.

42. Unbeknownst to investors, prior to and on the RS Effective Date, Legacy Spectrum had millions of dollars of obsolete inventory sitting in its warehouses across its operating segments. For example, former employees confirmed that Legacy Spectrum's Auto Care segment performed a huge inventory build in 2016 to account for a planned transition to a new warehouse and a new manufacturing and distribution plant. The inventory build and the transition was an undisclosed disaster, and when inventory could not be found, a former employee reported that Legacy Spectrum sent incorrect or incomplete orders to its Auto Care customers. That former employee described how this practice angered customers, leading to a sales slowdown in 2017 and 2018 due to reduced or cancelled orders. Another former employee described Legacy Spectrum's inventory management practices as very weak during this period.

43. These inventory and sales issues resulted in millions of dollars of obsolete inventory that had to be written off or liquidated.

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<sup>3</sup> Excludes current assets of business held for sale.

44. For example, a former Legacy Spectrum employee (“Former Employee 1”) stated that Legacy Spectrum’s Auto Care segment conducted a huge inventory build in 2016 to account for a shutdown of equipment during a planned transition. Former Employee 1 explained that Auto Care moved its warehouse from Mentor, Ohio to Dayton, Ohio to be closer to its new manufacturing and distribution plant in Vandalia, Ohio, and the inventory build was intended to provide Legacy Spectrum with enough product to get through the transition and peak season in 2017. According to Former Employee 1, this huge inventory build was immediately followed by a sales slowdown in 2017 and 2018. Thus, Former Employee 1 described this as a period of gross mismanagement of inventory.

45. Legacy Spectrum mismanaged its inventory during and after the transition, which resulted in a sales slowdown. For example, according to Former Employee 1, Legacy Spectrum sent “cut orders” to customers due to poor inventory management in Dayton and struggling production lines in Vandalia. According to Former Employee 1, sending “cut orders” meant that if Legacy Spectrum could not find products in their warehouse to fulfill customer orders, they would just ship incomplete orders without the missing products. Former Employee 1 explained that this practice angered customers, which led to reduced or cancelled orders and a sales slowdown in 2017 and 2018—described as two years of spectacular poor performance.

46. Former Employee 1 also stated that Legacy Spectrum used its SAP software system to track inventory, and that there was a specific category in the system that showed obsolete inventory. Former Employee 1 explained that the system was updated in real time, and there was an Inventory Analyst located in Dayton, Ohio whose job entailed managing inventory and selling older inventory to discount stores such as Dollar General and Big Lots. Former

Employee 1 also recalled that Auto Care's A/C Pro brand struggled, and that A/C Pro products did not sell as much as Legacy Spectrum expected during 2017 and 2018.

47. A former Legacy Spectrum and Spectrum employee ("Former Employee 2") stated that inventory was a nightmare at Legacy Spectrum's Auto Care segment and was difficult to keep track of during 2018. Former Employee 2 described how Legacy Spectrum used its SAP software system to track inventory in real time, but inventory counts were often incorrect. According to Former Employee 2, there was a small inventory control team, but they did not keep a constant inventory count across their locations. For example, Former Employee 2 explained that when inventory was counted, not every box was scanned; rather, when orders came in the inventory control team would just type the number of cases ordered into SAP, and warehouse pickers would have to find the products.

48. Former Employee 2 also recalled that Auto Care did not install racking systems during the first year after the move to Vandalia, Ohio. Specifically, according to Former Employee 2, there was no separation of products, which made finding and counting inventory difficult. Former Employee 2 stated there were pallets upon pallets of mixed up products, and some products were nowhere to be found. As a result, Former Employee 2 stated that when warehouse pickers attempted to fill orders, Legacy Spectrum and Spectrum shipped incorrect orders.

49. According to Former Employee 2, all surplus inventories were stored in a warehouse across the street from Auto Care's Vandalia, Ohio manufacturing and distribution plant, as well as multiple other nearby warehouses that Auto Care rented. Former Employee 2 described how Auto Care held more inventory than was needed all the time.

50. Former Employee 2 further recalled that Quality Control was in charge of writing off and taking damaged and older products out of inventory, which was often sent to wholesale discount stores. Former Employee 2 explained that in August and September 2018, for example, Auto Care frequently loaded trucks for wholesalers with products that had old packaging. Former Employee 2 also recalled that Auto Care had a lot of inventory that could not be sold in the United States because they were packaged in Spanish and needed to be sold in Mexico.

51. Another former Legacy Spectrum employee (“Former Employee 3”) confirmed that Legacy Spectrum’s inventory build during the transition to Dayton and Vandalia was poorly performed. According to Former Employee 3, in 2016, Legacy Spectrum planned to produce a certain number of weeks’ worth of inventory to cover the transition time, but Legacy Spectrum would increase that number almost every week. Former Employee 3 described Legacy Spectrum as very weak with respect to its inventory management practices.

52. According to Former Employee 3, one of Legacy Spectrum’s biggest inventory problems at Auto Care involved raw materials. On or about June 2016, for example, when Legacy Spectrum announced it would move its manufacturing and distribution plant from Painesville, Ohio to Vandalia, a lot of the raw materials personnel left and found new jobs. Former Employee 3 stated that Legacy Spectrum was forced to hire new personnel during a transition that ended on or about July 2017, which is when inventories “got screwed up.” Former Employee 3 explained that, traditionally, raw materials inventory was stored in the Painesville plant and finished products were stored in the Mentor warehouse. According to Former Employee 3, in mid-to-late 2016, however, there was so much excess raw materials that it was also being kept in the Mentor warehouse and several smaller warehouses in Mentor that Legacy Spectrum rented.

53. Former Employee 3 recalled that obsolete inventory was warehoused and stored together with the rest of the finished products in the Mentor warehouse, but the decision to declare products obsolete was made by a few individuals from the financial group in Auto Care's Danbury, Connecticut office. According to Former Employee 3, once inventory was declared obsolete, Legacy Spectrum would generally sell it to discount stores like Big Lots for pennies on the dollar.

54. Another former Legacy Spectrum and Spectrum employee ("Former Employee 4") stated that, in 2017 and 2018, there was always an overabundance of inventory. Specifically, there was a large excess of inventory by mid-2017, which continued to build up into late 2018. Former Employee 4 explained that Legacy Spectrum and Spectrum did not have tight processes regarding inventory control, and that following the move to the Dayton, Ohio warehouse, there were space issues and Auto Care had to rent out an extra warehouse to hold the excess inventory.

55. According to Former Employee 4, one of the initial problems was that the Dayton warehouse could not handle the large volume of inventory because it did not have any racking systems installed at the time of the move, such that inventory could not be stacked high. Legacy Spectrum did not begin installing racking systems until May and June 2018. By November 2018, not all racking systems were in place, and there was still a lot of excess inventory.

56. Former Employee 4 also recalled that the majority of excess inventory was in finished goods and confirmed that Legacy Spectrum and Spectrum used their SAP software system to manage inventory. However, the company often did not know where products were physically located. The SAP system would show inventory as being in one location, but when someone went to find it, it was not there. These issues led to an overabundance of inventory.

57. These statements from former Legacy Spectrum and Spectrum employees confirm what Spectrum itself admitted after the Merger: the Company had excess and obsolete inventory that had to be written off to “clean up” its balance sheet. What the Registration Statement failed to disclose, however, is that prior to and on the RS Effective Date, Legacy Spectrum (*i.e.*, HRG’s Consumer Products segment) had millions of dollars of obsolete inventory sitting in its warehouses across its operating segments. For example, these former employees’ statements demonstrate that Legacy Spectrum’s Auto Care segment performed a huge inventory build in 2016, but due to poor inventory management practices, there was a sales slowdown in 2017 and 2018. As a result, Auto Care had millions of dollars of obsolete inventory sitting in its warehouses that had to be sold to discount stores for pennies on the dollar, *i.e.*, liquidated or written off to clean up Auto Care’s balance sheet—a materialization of undisclosed structural, fundamental, and material inefficiencies.

58. As Spectrum would later admit, just as it faced these inventory problems in its Auto Care segment, prior to and on the RS Effective Date, Legacy Spectrum and HRG also had millions of dollars of obsolete inventory sitting in their PET and H&G warehouses.

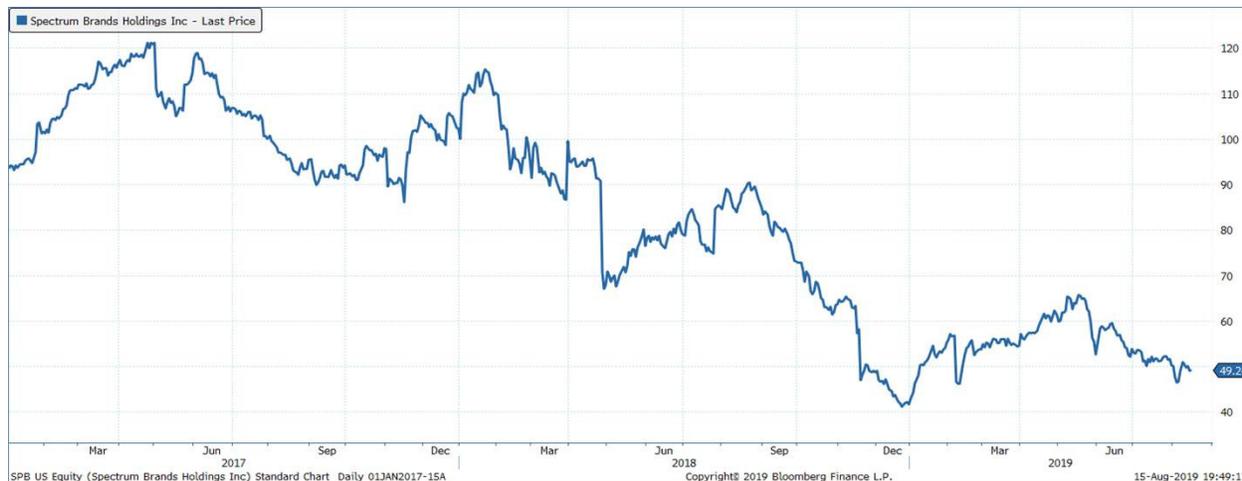
59. From January 1, 2017 through August 15, 2019 (the last trading day before this Amended Complaint was filed), Spectrum’s common stock<sup>4</sup> has declined in value from \$95.56 per share to \$49.24 per share—*shedding more than half its value*.<sup>5</sup> From May 1, 2017 (Spectrum’s fiscal 2017 trading high) to September 29, 2017 (the last trading day in Spectrum’s fiscal 2017), Spectrum’s common stock declined in value from \$123.83 per share to \$96.36 per

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<sup>4</sup> Prior to consummation of the Merger, Spectrum’s (HRG’s successor-in-interest) common stock was listed and traded on the NYSE under the pre-Merger HRG ticker symbol “HRG.” Post-Merger, HRG changed its name to Spectrum Brands Holdings, Inc., Legacy Spectrum common stock was delisted from the NYSE, and HRG common stock was listed and began trading on the NYSE under the pre-Merger Legacy Spectrum ticker symbol “SPB.”

<sup>5</sup> All values are as of the close of trading on each respective date.

share (a **22 percent decline**). By November 15, 2017, Spectrum's common stock declined further in value to \$88.02 per share (a **29 percent decline** from May 1, 2017), and by April 26, 2018, Spectrum's common stock had dropped to \$72.22 (a **42 percent decline** from May 1, 2017). The chart below shows Spectrum's common stock share price from January 1, 2017 through August 15, 2019:



60. Goodwill, an intangible asset, represents the excess value a buyer pays for a target above the actual accounting value of the target's assets. For example, if a target's net identifiable assets are ascribed a value of \$5 million and the buyer pays \$7 million, the buyer would record \$2 million in goodwill. Once recorded, goodwill may represent, *inter alia*, the value of a company's brand name, its solid customer base, good customer relations, or any patents or proprietary technology. In the last two fiscal quarters prior to the Merger (ended December 31, 2017 and April 1, 2018), the Auto Care segment reported \$934.4 million and \$935.2 million in goodwill, respectively.

61. GAAP required HRG (and then Spectrum) to perform a goodwill impairment analysis of its reporting units, including all four operating segments (HHI, PET, H&G, GAC or Auto Care, and GBA prior to the sale of the Battery Business to Energizer). The purpose of this

testing is to determine whether the fair value of goodwill (typically, a discounted cash flow analysis) exceeds the carrying value (*i.e.*, the reported or “book” value) (ASC 350). GAAP required that HRG (and then Spectrum) perform this impairment testing at least annually, and more frequently if events or changes in circumstances indicate it is more likely than not that goodwill is impaired (*i.e.*, a triggering event).

62. The most common triggering event for interim goodwill impairment testing is a sustained decline in common stock share price. Since 2016, despite the consistent decline in Spectrum’s common stock share price, Spectrum (HRG prior to the Merger) only performed annual goodwill impairment tests and never performed interim tests. Spectrum claimed that “[t]here were no triggering events identified ... that would require the need for an impairment test.” In fact, Spectrum’s share price decline and Auto Care’s deteriorating financial performance (including slowing sales and a build-up of excess and obsolete inventory, as confirmed by former Legacy Spectrum and Spectrum employees) are strong indicators that a triggering event occurred prior to the RS Effective Date.

63. Auto Care’s thin margins of fair value over book value provide additional evidence that a triggering event occurred prior to the RS Effective Date. During the two annual impairment tests preceding the Merger (valued on September 30, 2016 and September 30, 2017), Spectrum concluded that its Auto Care segment’s goodwill was not impaired by the *same thin margin*—Auto Care’s fair value exceeded its book value by only 12 percent *both years*. By contrast, the average year-to-year margin variance for the other operating segments was *never lower than 5 percent* (GBA: 157 percent and 152 percent for 2016 and 2017, respectively) and *as high as 26 percent* (H&G: 326 percent and 352 percent for 2016 and 2017, respectively), with an *average variance of 17 percent* across the other operating segments. The fact that Auto

Care's fair value to book value margin remained *exactly the same* (and at a very thin margin) from year-to-year indicates that Spectrum's goodwill impairment testing was insufficient; at worst, this indicates Spectrum failed to carry out goodwill impairment testing for the September 2017 valuation. Spectrum's dubious determinations of "no triggering events identified" is even more questionable given Auto Care's poor financial performance during the very same period (as attested to by four separate former employees).

64. Even if the September 2017 test was accurate, the Company violated GAAP by neither performing interim goodwill impairment testing nor taking an impairment charge prior to the RS Effective Date, after Spectrum's common stock share price had declined considerably. Between January 23, 2018 and April 26, 2018, Spectrum's common stock declined from \$117.84 per share to \$72.22 per share (a *39 percent decline*). Had the Company properly administered goodwill impairment testing during this period prior to the RS Effective Date, the undisclosed inventory and sales issues in the Auto Care segment (as confirmed by former Legacy Spectrum and Spectrum employees) would have dragged Auto Care's fair value below its book value, forcing Spectrum to record and report an impairment by the RS Effective Date. Instead, Spectrum delayed recording a \$92.5 million impairment of goodwill at its Auto Care segment until after the Merger, thereby misleading investors by materially overstating the Company's earnings in the Registration Statement.

**B. HRG's Merger with Legacy Spectrum**

65. On February 24, 2018, HRG and Legacy Spectrum entered into an Agreement and Plan of Merger (as amended June 8, 2018, the "Merger Agreement") providing for the acquisition of Legacy Spectrum by HRG in exchange for HRG equity.

66. Under the terms of the Merger Agreement, the Merger would be implemented through several steps to occur in immediate succession. First, HRG's Charter would be amended

and restated, and HRG's corporate name would change to "Spectrum Brands Holdings, Inc.," thus turning HRG into Spectrum, as defined herein. Next, each issued and outstanding share of HRG common stock would, by means of a reverse stock split (the "Reverse Stock Split"), be combined into a fraction of a share of HRG common stock equal to: (i) the number of shares of common stock of Legacy Spectrum held by HRG and its subsidiaries immediately prior to the effective time of the Merger (adjusted for HRG's net indebtedness as of closing, certain transaction expenses of HRG unpaid as of closing, and a \$200,000 upward adjustment); divided by (ii) the number of outstanding shares of HRG common stock on a fully diluted basis immediately prior to the Reverse Stock Split.

67. In the Reverse Stock Split, each HRG shareholder would receive approximately 0.1603 of a share of HRG common stock in respect of each share of HRG common stock. Pursuant to the Merger Agreement, each issued and outstanding share of Legacy Spectrum common stock would be converted into the right to receive one newly-registered share of HRG common stock.

68. Upon consummation of the Merger, pre-closing HRG shareholders and pre-closing Legacy Spectrum shareholders would own approximately 61 percent (apr. 32.7 million shares) and 39 percent (apr. 20.9 million shares), respectively, of the outstanding shares of HRG common stock, and a total of 53,613,184 shares of HRG common stock would be outstanding.

69. Under the terms of the Merger Agreement, such ownership percentages assumed, among other things, that: (i) Spectrum (and Legacy Spectrum shareholders) as a newly-combined company would assume \$336.9 million of HRG net indebtedness, as well as transaction expenses, in connection with the Merger; and (ii) Legacy Spectrum shareholders would pay, and

pre-Merger HRG shareholders would receive, an additional \$200 million cash payment or “upward adjustment.”

70. Following consummation of the Merger, Legacy Spectrum common stock would be delisted from the NYSE, deregistered under the Securities Exchange Act of 1934 (the “Exchange Act”), and cease to be publicly traded. HRG common stock, including the newly-registered shares that Legacy Spectrum shareholders would acquire, would be listed on the NYSE and would trade under the pre-Merger Legacy Spectrum ticker symbol “SPB.”

71. On or about April 10, 2018, HRG filed with the SEC its registration statement for the shares that Legacy Spectrum shareholders would acquire in the Merger on Form S-4 (the “Form S-4”), which, following amendments on or about May 18, 2018 and June 8, 2018, was declared effective by the SEC on June 12, 2018 (the “RS Effective Date”).

72. On or about June 12, 2018, HRG filed with the SEC its prospectus for the Merger on Form 424B3 (the “Prospectus”), which forms part of the Registration Statement (the Prospectus and Form S-4, as amended, are referred to collectively herein as the “Registration Statement”).

73. Defendants Maura, Steinberg, Nicholson, Glovier, Ianna, Luterman, McKnight, and Whittaker each signed the Registration Statement. Defendants Maura and Steinberg were members of HRG’s Board of Directors at the effective time of the Merger, and Defendant Maura became CEO and Executive Chairman of Spectrum’s Board of Directors on the Merger closing date. Each of the Individual Defendants reviewed, edited, and approved the Registration Statement and solicited shareholder approval of the Merger and related corporate actions.

74. On July 13, 2018, HRG shareholders and Legacy Spectrum shareholders approved the Merger at respective special meetings of each company’s shareholders.

75. In connection with the Merger and pursuant to the Registration Statement, HRG became Spectrum and issued approximately 20.9 million shares of newly-registered common stock directly to Legacy Spectrum shareholders. HRG shareholders exchanged their shares of HRG common stock for approximately 32.7 million shares of Spectrum common stock.

76. Pre-Merger HRG shareholders received, and Legacy Spectrum shareholders paid, an additional \$200 million cash payment or “upward adjustment,” thereby draining Legacy Spectrum of its pre-Merger liquidity. Legacy Spectrum shareholders, who became shareholders of Spectrum, also assumed approximately \$890 million of HRG’s debt at a higher rate than any of Legacy Spectrum’s other debt.<sup>6</sup> Legacy Spectrum shareholders, as Spectrum shareholders, further incurred approximately \$15 million in transaction fees related to the Merger.

**C. The Registration Statement Contained Material False and Misleading Statements and Omitted Material Information**

77. The Registration Statement contained untrue statements of material facts, omitted facts necessary to make the statements made not misleading, and was not prepared in accordance with the rules and regulations governing its preparation. Specifically, the Registration Statement incorporated by reference materially misleading Legacy Spectrum and HRG SEC filings.

78. The Registration Statement incorporated by reference the following annual, quarterly, and current reports for Legacy Spectrum: (i) annual report for the fiscal year ended September 30, 2017, filed with the SEC on Form 10-K on November 16, 2017 and amended on November 17, 2017 and January 23, 2018 (the “Legacy Spectrum 2017 10-K”); (ii) quarterly report for the quarterly period ended December 31, 2017, filed with the SEC on Form 10-Q on

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<sup>6</sup> In Spectrum’s post-Merger annual report for the fiscal year ended September 30, 2018, filed with the SEC on Form 10-K on November 23, 2018 and amended on January 28, 2019 (the “Spectrum 2018 10-K”), the Company reported it carried \$890 million of HRG debt under the line item “HRG - 7.75% Senior Unsecured Notes, due January 15, 2022.” The Spectrum 2018 10-K also reported the Company’s other debt rates, ranging from 4.00 to 6.625 percent.

February 8, 2018 (the “Legacy Spectrum 1Q18 10-Q”); (iii) quarterly report for the quarterly period ended April 1, 2018, filed with the SEC on Form 10-Q on May 3, 2018 (the “Legacy Spectrum 2Q18 10-Q”); (iv) current report filed with the SEC on Form 8-K on March 30, 2018 with Exhibits (the “Legacy Spectrum Updated 2017 10-K”); and (v) current report filed with the SEC on Form 8-K on April 26, 2018 with Exhibits (the “Legacy Spectrum 2Q18 8-K”).

79. The Registration Statement also incorporated by reference the following annual, quarterly, and current reports for HRG: (i) annual report for the fiscal year ended September 30, 2017, filed with the SEC on Form 10-K on November 20, 2017 (the “HRG 2017 10-K”); (ii) quarterly report for the quarterly period ended December 31, 2017, filed with the SEC on Form 10-Q on February 9, 2018 (the “HRG 1Q18 10-Q”); (iii) quarterly report for the quarterly period ended March 31, 2018, filed with the SEC on Form 10-Q on May 4, 2018 (the “HRG 2Q18 10-Q”); and (iv) current report filed with the SEC on Form 8-K on April 2, 2018 with Exhibits (the “HRG Updated 2017 10-K”).

80. Sections 11 and 12(a)(2) of the Securities Act create strict liability for any untrue statements of material facts or any omission of material facts required to be stated in a registration statement or prospectus, respectively.

81. Pursuant to Sections 11 and 12(a)(2) of the Securities Act and SEC Regulation C, Spectrum was also required to disclose material information necessary to ensure that representations in the Registration Statement were not misleading. Specifically, Rule 408, 17 C.F.R. § 230.408(a), states that “[i]n addition to the information expressly required to be included in a registration statement, there shall be added such further material information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading.”

82. Under the instructions to Form S-4, Spectrum was required to furnish the information called for under Item 303 of Regulation S-K, 17 C.F.R. § 229.303. Specifically, Item 303, and the SEC's related interpretive releases thereto, requires issuers to disclose events or uncertainties, including but not limited to "any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations" or "material events and uncertainties known to management that would cause reported financial information not to be necessarily indicative of future operating results or of future financial condition."

83. Under the instructions to Form S-4, Spectrum was also required to furnish the information called for under Item 503 of Regulation S-K, 17 C.F.R. § 229.503. Specifically, Item 503, and the SEC's related interpretive releases thereto, requires issuers to "provide under the caption 'Risk Factors' a discussion of the most significant factors that make the offering speculative or risky" and "[e]xplain how the risk affects the issuer or the securities being offered."

84. In violation of these statutes and rules, the Registration Statement contained untrue statements of material facts, omitted material facts required to be stated therein, and failed to disclose and misrepresented known materially adverse trends and uncertainties and significant factors that made the offering speculative or risky—material information that was necessary to make statements in the Registration Statement not misleading. The materially false or misleading statements, or omissions of material facts, are discussed below and fall into four categories: (i) financial condition; (ii) internal controls; (iii) risk factors; and (iv) adverse trends.

**1. The Registration Statement Contained False and Misleading Statements of Material Facts and Omissions About Legacy Spectrum’s and HRG’s Financial Condition**

85. The Registration Statement incorporated by reference Legacy Spectrum’s and HRG’s pre-Merger SEC filings, which contained materially misleading financial statements. Specifically, Spectrum included false Legacy Spectrum and HRG<sup>7</sup> financial figures, including materially overstated: (i) operating income (or loss), income (or loss) from continuing operations before income taxes, net income (or loss) from continuing operations, and net income (or loss) (collectively, “Income”); (ii) EBITDA and adjusted EBITDA (collectively, “SBH EBITDA”); (iii) Inventories; and (iv) Goodwill.

**(a) Legacy Spectrum’s Financial Statements**

86. The Legacy Spectrum 2017 10-K contained the following materially false and misleading Income figures reported under Item 6, Selected Financial Data:

<b>Statement of Operations Data (for the year ended 9/30/2017)</b>	<b>Consolidated (in millions)</b>
Operating income	\$561.4
Income (loss) from operations before income taxes	\$344.6
Net income (loss)	\$297.1

87. The Legacy Spectrum 2017 10-K contained the following materially false and misleading SBH EBITDA figures reported under Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”):

<b>Reconciliation of Net Income to Adjusted EBITDA (for the year ended 9/30/2017)</b>	<b>PET (in millions)</b>	<b>H&amp;G (in millions)</b>	<b>GAC (in millions)</b>	<b>Consolidated (in millions)</b>
Net income (loss)	\$28.8	\$114.4	\$100.8	\$297.1

<sup>7</sup> HRG’s only substantial business holding was its controlling interest in Legacy Spectrum, which HRG reported as its “Consumer Products” segment.

<b>Reconciliation of Net Income to Adjusted EBITDA (for the year ended 9/30/2017)</b>	<b>PET (in millions)</b>	<b>H&amp;G (in millions)</b>	<b>GAC (in millions)</b>	<b>Consolidated (in millions)</b>
EBITDA	\$71.9	\$132.0	\$121.9	\$754.4
Adjusted EBITDA	\$142.7	\$133.0	\$148.4	\$955.7

88. The Legacy Spectrum 2017 10-K contained the following materially false and misleading Inventories and Goodwill figures reported under Item 15, Exhibits, Financial Statements and Schedules, Consolidated Statements of Financial Position of Spectrum Brands Holdings, Inc.:

<b>Assets (for the year ended 9/30/2017)</b>	<b>Consolidated (in millions)</b>
Inventories	\$775.5
Goodwill	\$2,626.0

89. The Legacy Spectrum 2017 10-K also contained the following materially false and misleading Inventories figures reported under Item 15, Exhibits, Financial Statements and Schedules, Notes to the Consolidated Financial Statements of Spectrum Brands Holdings, Inc., Note 7 – Inventory:

<b>Inventories (for the year ended 9/30/2017)</b>	<b>Consolidated (in millions)</b>
Raw materials	\$123.8
Work-in-process	\$54.3
Finished goods	\$597.4
Total	\$775.5

90. The Legacy Spectrum 2017 10-K also contained the following materially false and misleading Goodwill figures reported under Item 15, Exhibits, Financial Statements and Schedules, Notes to the Consolidated Financial Statements of Spectrum Brands Holdings, Inc., Note 9 – Goodwill and Intangible Assets:

<b>Goodwill by Segment (for the year ended 9/30/2017)</b>	<b>GAC (in millions)</b>
Goodwill	\$934.8

91. The Legacy Spectrum 1Q18 10-Q contained the following materially false and misleading Income figures reported under Item 1, Financial Statements:

<b>Statements of Income (for the quarterly period ended 12/31/2017)</b>	<b>Consolidated (in millions)</b>
Operating income	\$34.0
(Loss) income from operations before income taxes	\$(5.9)
Net income from continuing operations	\$120.1
Net income (loss)	\$161.0

92. The Legacy Spectrum 1Q18 10-Q contained the following materially false and misleading SBH EBITDA figures reported under Item 2, MD&A:

<b>Reconciliation of Net Income to Adjusted EBITDA (for the quarterly period ended 12/31/2017)</b>	<b>PET (in millions)</b>	<b>H&amp;G (in millions)</b>	<b>GAC (in millions)</b>	<b>Consolidated (in millions)</b>
Net income from continuing operations	\$12.9	\$0.7	\$6.7	\$120.1
EBITDA	\$23.3	\$5.4	\$10.6	\$65.7
Adjusted EBITDA	\$34.1	\$5.4	\$14.8	\$105.7

93. The Legacy Spectrum 1Q18 10-Q contained the following materially false and misleading Inventories and Goodwill figures reported under Item 1, Financial Statements:

<b>Assets (for the quarterly period ended 12/31/2017)</b>	<b>Consolidated (in millions)</b>
Inventories	\$580.7
Goodwill	\$2,276.4

94. The Legacy Spectrum 1Q18 10-Q also contained the following materially false and misleading Inventories figures reported under Item 1, Notes to the Condensed Consolidated Financial Statements of Spectrum Brands Holdings, Inc., Note 7 – Inventories:

<b>Inventories (for the quarterly period ended 12/31/2017)</b>	<b>Consolidated (in millions)</b>
Raw materials	\$103.2
Work-in-process	\$51.1
Finished goods	\$426.4
Total	\$580.7

95. The Legacy Spectrum 1Q18 10-Q also contained the following materially false and misleading Goodwill figures reported under Item 1, Notes to the Condensed Consolidated Financial Statements of Spectrum Brands Holdings, Inc., Note 9 – Goodwill and Intangible Assets:

<b>Goodwill by Segment (for the quarterly period ended 12/31/2017)</b>	<b>GAC (in millions)</b>
Goodwill	\$934.4

96. The Legacy Spectrum 2Q18 10-Q contained the following materially false and misleading Income figures reported under Item 1, Financial Statements:

<b>Statements of Income (for the quarterly period ended 4/1/2018)</b>	<b>Consolidated (in millions)</b>
Operating income	\$43.2
(Loss) income from continuing operations before income taxes	\$(0.3)
Net income from continuing operations	\$0.8
Net income	\$1.5

97. The Legacy Spectrum 2Q18 10-Q contained the following materially false and misleading SBH EBITDA figures reported under Item 2, MD&A:

<b>Reconciliation of Net Income to Adjusted EBITDA (for the quarterly period ended 4/1/2018)</b>	<b>PET (in millions)</b>	<b>H&amp;G (in millions)</b>	<b>GAC (in millions)</b>	<b>Consolidated (in millions)</b>
Net income from continuing operations	\$15.2	\$20.4	\$12.3	\$0.8
EBITDA	\$25.9	\$25.1	\$16.3	\$76.0
Adjusted EBITDA	\$35.7	\$25.3	\$19.8	\$115.6

98. The Legacy Spectrum 2Q18 10-Q contained the following materially false and misleading Inventories and Goodwill figures reported under Item 1, Financial Statements:

<b>Assets (for the quarterly period ended 4/1/2018)</b>	<b>Consolidated (in millions)</b>
Inventories	\$610.5
Goodwill	\$2,280.2

99. The Legacy Spectrum 2Q18 10-Q also contained the following materially false and misleading Inventories figures reported under Item 1, Notes to the Condensed Consolidated Financial Statements of Spectrum Brands Holdings, Inc., Note 7 – Inventories:

<b>Inventories (for the quarterly period ended 4/1/2018)</b>	<b>Consolidated (in millions)</b>
Raw materials	\$112.4
Work-in-process	\$48.1
Finished goods	\$450.0
Total	\$610.5

100. The Legacy Spectrum 2Q18 10-Q also contained the following materially false and misleading Goodwill figures reported under Item 1, Notes to the Condensed Consolidated Financial Statements of Spectrum Brands Holdings, Inc., Note 9 – Goodwill and Intangible Assets:

<b>Goodwill by Segment (for the quarterly period ended 4/1/2018)</b>	<b>GAC (in millions)</b>
Goodwill	\$935.2

101. The Legacy Spectrum Updated 2017 10-K contained the following materially false and misleading Income figures reported under Item 6, Selected Financial Data:

<b>Statement of Operations Data (for the year ended 9/30/2017)</b>	<b>Consolidated (in millions)</b>
Operating income	\$328.1
Income from continuing operations before income taxes	\$162.3
Net income from continuing operations	\$125.0
Net income (loss)	\$297.1

102. The Legacy Spectrum Updated 2017 10-K contained the following materially false and misleading SBH EBITDA figures reported under Item 7, MD&A:

<b>Reconciliation of Net Income to Adjusted EBITDA (for the year ended 9/30/2017)</b>	<b>PET (in millions)</b>	<b>H&amp;G (in millions)</b>	<b>GAC (in millions)</b>	<b>Consolidated (in millions)</b>
Net income from continuing operations	\$28.8	\$114.4	\$100.8	\$125.0
EBITDA	\$71.9	\$132.0	\$121.9	\$454.8
Adjusted EBITDA	\$142.7	\$133.0	\$148.4	\$639.2

103. The Legacy Spectrum Updated 2017 10-K contained the following materially false and misleading Inventories and Goodwill figures reported under Item 15, Exhibits, Financial Statements and Schedules, Consolidated Statements of Financial Position of Spectrum Brands Holdings, Inc.:

<b>Assets (for the year ended 9/30/2017)</b>	<b>Consolidated (in millions)</b>
Inventories	\$496.3
Goodwill	\$2,277.1

104. The Legacy Spectrum Updated 2017 10-K also contained the following materially false and misleading Inventories figures reported under Item 15, Exhibits, Financial Statements and Schedules, Notes to the Consolidated Financial Statements of Spectrum Brands Holdings, Inc., Note 8 – Inventory:

<b>Inventories (for the year ended 9/30/2017)</b>	<b>Consolidated (in millions)</b>
Raw materials	\$95.7
Work-in-process	\$35.5
Finished goods	\$365.1
Total	\$496.3

105. The Legacy Spectrum Updated 2017 10-K also contained the following materially false and misleading Goodwill figures reported under Item 15, Exhibits, Financial Statements and Schedules, Notes to the Consolidated Financial Statements of Spectrum Brands Holdings, Inc., Note 10 – Goodwill and Intangible Assets:

<b>Goodwill by Segment (for the year ended 9/30/2017)</b>	<b>(in millions)</b>
GAC	\$934.8

106. The Legacy Spectrum 2Q18 8-K contained the following materially false and misleading Income figures reported on page “13 / 21”:

<b>Statements of Income (for the quarterly period ended 4/1/2018)</b>	<b>Consolidated (in millions)</b>
Operating income	\$43.2
(Loss) income from continuing operations before income taxes	\$(0.3)
Net income from continuing operations	\$0.8
Net income	\$1.5

107. The Legacy Spectrum 2Q18 8-K contained the following materially false and misleading SBH EBITDA figures reported on page “19 / 21”:

<b>Reconciliation of Net Income to Adjusted EBITDA (for the quarterly period ended 4/1/2018)</b>	<b>PET (in millions)</b>	<b>H&amp;G (in millions)</b>	<b>GAC (in millions)</b>	<b>Consolidated (in millions)</b>
Net income from continuing operations	\$15.2	\$20.4	\$12.3	\$0.8
EBITDA	\$25.9	\$25.1	\$16.3	\$76.0
Adjusted EBITDA	\$35.7	\$25.3	\$19.8	\$115.6

108. The Legacy Spectrum 2Q18 8-K contained the following materially false and misleading Inventories and Goodwill figures reported on page “15 / 21”:

<b>Assets (for the quarterly period ended 4/1/2018)</b>	<b>Consolidated (in millions)</b>
Inventories	\$610.5
Goodwill	\$2,280.2

109. The statements referenced above in ¶¶86-108 concerning Legacy Spectrum’s Income, SBH EBITDA, Inventories, and Goodwill were each inaccurate statements of material facts as of the RS Effective Date because they falsely portrayed Legacy Spectrum’s financial condition and misrepresented and omitted the following material adverse facts that existed prior to and on the RS Effective Date:

- (a) Prior to and on the RS Effective Date (as confirmed by former Legacy Spectrum and Spectrum employees), Legacy Spectrum’s GAC or Auto Care segment had performed a huge inventory build in 2016, but due to poor inventory management practices, there was a sales slowdown in 2017 and 2018. This resulted in millions of dollars of obsolete inventory that had to be written off or liquidated;

- (b) Prior to and on the RS Effective Date, Legacy Spectrum’s Income was overstated due to the undisclosed overstatement of GAC Goodwill by at least \$92.5 million, which thereby inflated Legacy Spectrum’s Income figures;
- (c) Prior to and on the RS Effective Date, SBH EBITDA was overstated due to, *inter alia*, (i) the undisclosed accumulation of millions of dollars of obsolete inventory that had to be written off or liquidated (at H&G, PET, and GAC), (ii) undisclosed, unfavorable manufacturing variances (at H&G and PET), (iii) undisclosed operating inefficiencies, and (iv) the failure to timely recognize a multiyear duty catch-up accrual to “clean up” GAC’s balance sheet;
- (d) Prior to and on the RS Effective Date, Legacy Spectrum’s Inventories were overstated. Specifically, the GAC, H&G, and PET segments each had undisclosed excess and obsolete inventory that had to be written off and liquidated to “clean up” their respective balance sheets; and
- (e) Prior to and on the RS Effective Date, GAC (and therefore Legacy Spectrum) Goodwill was overstated by at least \$92.5 million.

**(b) HRG’s Financial Statements**

110. The HRG 2017 10-K contained the following materially false and misleading Income figures reported under Item 7, MD&A:

<b>Results of Operations (for the year ended 9/30/2017)</b>	<b>Fiscal 2017 (in millions)</b>
Consumer Products operating income	\$561.4
Income (loss) from continuing operations before income taxes	\$151.2
Net income (loss) from continuing operations	\$102.9
Net income (loss)	\$273.2

111. The HRG 2017 10-K contained the following materially false and misleading SBH EBITDA figures reported under Item 7, MD&A:

<b>Reconciliation of Net Income to Adjusted EBITDA (for the year ended 9/30/2017)</b>	<b>Fiscal 2017 (in millions)</b>
Reported net income – Consumer Products segment	\$297.1
EBITDA – Consumer Products segment	\$754.4
Adjusted EBITDA – Consumer Products segment	\$955.7

112. The HRG 2017 10-K contained the following materially false and misleading Inventories and Goodwill figures reported under Item 16, Consolidated Financial Statements of HRG Group, Inc., Notes to Consolidated Financial Statements, Notes 9, 11:

<b>Assets (for the year ended 9/30/2017)</b>	<b>Fiscal 2017 (in millions)</b>
Inventories, net (Note 9)	\$775.5
Goodwill (Note 11)	\$2,626.0

113. The HRG 1Q18 10-Q contained the following materially false and misleading Income figures reported under Item 2, MD&A:

<b>Results of Operations (for the quarterly period ended 12/31/2017)</b>	<b>Fiscal 1Q18 (in millions)</b>
Consumer Products operating income	\$34.0
Loss from continuing operations before income taxes	\$(47.9)
Net income (loss) from continuing operations	\$78.1
Net income	\$578.9

114. The HRG 1Q18 10-Q contained the following materially false and misleading SBH EBITDA figures reported under Item 2, MD&A:

<b>Reconciliation of Net Income to Adjusted EBITDA (for the quarterly period ended 12/31/2017)</b>	<b>Fiscal 1Q18 (in millions)</b>
Reported net income – Consumer Products segment	\$120.1
EBITDA – Consumer Products segment	\$65.7
Adjusted EBITDA – Consumer Products segment	\$105.7

115. The HRG 1Q18 10-Q contained the following materially false and misleading Inventories and Goodwill figures reported under Item 1, Financial Statements:

<b>Assets (for the quarterly period ended 12/31/2017)</b>	<b>Fiscal 1Q18 (in millions)</b>
Inventories, net	\$580.7
Goodwill	\$2,276.4

116. The HRG 2Q18 10-Q contained the following materially false and misleading Income figures reported under Item 2, MD&A:

<b>Results of Operations (for the quarterly period ended 3/31/2018)</b>	<b>Fiscal 2Q18 (in millions)</b>
Consumer Products operating income	\$43.1
(Loss) income from continuing operations before income taxes	\$(38.5)
Net (loss) income from continuing operations	\$(37.3)
Net (loss) income	\$(36.6)

117. The HRG 2Q18 10-Q contained the following materially false and misleading SBH EBITDA figures reported under Item 2, MD&A:

<b>Reconciliation of Net Income to Adjusted EBITDA (for the quarterly period ended 3/31/2018)</b>	<b>Fiscal 2Q18 (in millions)</b>
Reported net income – Consumer Products segment	\$0.9

<b>Reconciliation of Net Income to Adjusted EBITDA (for the quarterly period ended 3/31/2018)</b>	<b>Fiscal 2Q18 (in millions)</b>
EBITDA – Consumer Products segment	\$75.8
Adjusted EBITDA – Consumer Products segment	\$115.6

118. The HRG 2Q18 10-Q contained the following materially false and misleading Inventories and Goodwill figures reported under Item 1, Financial Statements:

<b>Assets (for the quarterly period ended 3/31/2018)</b>	<b>Fiscal 2Q18 (in millions)</b>
Inventories, net	\$610.5
Goodwill	\$2,280.2

119. The HRG Updated 2017 10-K contained the following materially false and misleading Income figures reported under Item 7, MD&A:

<b>Results of Operations (for the year ended 9/30/2017)</b>	<b>Fiscal 2017 (in millions)</b>
Consumer Products operating income	\$328.1
(Loss) income from continuing operations before income taxes	\$(31.1)
Net (loss) income from continuing operations	\$(69.2)
Net income (loss)	\$273.2

120. The HRG Updated 2017 10-K contained the following materially false and misleading SBH EBITDA figures reported under Item 7, MD&A:

<b>Reconciliation of Net Income to Adjusted EBITDA (for the year ended 9/30/2017)</b>	<b>Fiscal 2017 (in millions)</b>
Reported net income – Consumer Products segment	\$125.0
EBITDA – Consumer Products segment	\$454.8
Adjusted EBITDA – Consumer Products segment	\$639.2

121. The HRG Updated 2017 10-K contained the following materially false and misleading Inventories and Goodwill figures reported under Exhibit 99.6, Consolidated Balance Sheets as of September 30, 2017 and 2016 of HRG Group, Inc.:

<b>Assets (for the year ended 9/30/2017)</b>	<b>Fiscal 2017 (in millions)</b>
Inventories, net	\$496.3
Goodwill	\$2,277.1

122. The statements referenced above in ¶¶110-121 concerning HRG's Income, SBH EBITDA, Inventories, and Goodwill were each inaccurate statements of material facts as of the RS Effective Date because they falsely portrayed HRG's financial condition and misrepresented the following material adverse facts that existed prior to and on the RS Effective Date:

- (a) Prior to and on the RS Effective Date (as confirmed by former Legacy Spectrum and Spectrum employees), Legacy Spectrum's (*i.e.*, HRG's Consumer Products segment) GAC or Auto Care segment had performed a huge inventory build in 2016, but due to poor inventory management practices, there was a massive sales slowdown in 2017 and 2018. This resulted in millions of dollars of obsolete inventory that had to be written off or liquidated;
- (b) Prior to and on the RS Effective Date, HRG's Income was overstated due to the undisclosed overstatement of GAC Goodwill by at least \$92.5 million, which thereby inflated HRG's Income figures;
- (c) Prior to and on the RS Effective Date, SBH EBITDA was overstated due to, *inter alia*, (i) the undisclosed accumulation of millions of dollars of obsolete inventory that had to be written off or liquidated (at H&G, PET, and GAC), (ii) undisclosed, unfavorable manufacturing variances (at H&G and PET) (iii) undisclosed

operating inefficiencies, and (iv) the failure to timely recognize a multiyear duty catch-up accrual to “clean up” GAC’s balance sheet;

(d) Prior to and on the RS Effective Date, HRG’s Inventories were overstated.

Specifically, Legacy Spectrum’s (*i.e.*, HRG’s Consumer Products segment) GAC, H&G, and PET segments each had undisclosed excess and obsolete inventory that had to be written off and liquidated to “clean up” their respective balance sheets; and

(e) Prior to and on the RS Effective Date, GAC (and therefore HRG) Goodwill was overstated by at least \$92.5 million.

**2. The Registration Statement Contained False and Misleading Statements of Material Facts and Omissions About Legacy Spectrum’s and HRG’s Internal Controls**

123. Legacy Spectrum’s and HRG’s pre-Merger SEC filings, incorporated by reference into the Registration Statement, contained materially misleading internal control certifications. Specifically, the pre-Merger SEC filings included false statements certifying that Legacy Spectrum and HRG management (responsible for establishing and maintaining adequate internal control over financial reporting), respectively, had assessed the effectiveness of its internal control over financial reporting and concluded that its internal control was effective.

**(a) Legacy Spectrum Internal Control Certifications**

124. The Registration Statement incorporated by reference false statements certifying, *inter alia*, that Legacy Spectrum’s certifying officers: (i) designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known; (ii) designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP; (iii) evaluated and presented conclusions about the effectiveness of the

registrant's disclosure controls and procedures; and (iv) disclosed any change in the registrant's internal control over financial reporting that has materially affected the registrant's internal control over financial reporting.

125. The following chart details each Legacy Spectrum SEC filing, as incorporated by reference into the Registration Statement, that included materially misleading internal control certifications, as well as the certifying officers that signed these false statements.

<b>Legacy Spectrum SEC Filing</b>	<b>Certifying Officers</b>
Legacy Spectrum 2017 10-K, Exhibits 31.1 and 31.2	CEO Andreas Rouvé, CFO Douglas L. Martin
Legacy Spectrum 1Q18 10-Q, Exhibits 31.1 and 31.2	CEO Andreas Rouvé, CFO Douglas L. Martin
Legacy Spectrum 2Q18 10-Q, Exhibits 31.1 and 31.2	Defendant Maura, CFO Douglas L. Martin

126. The statements referenced above in ¶¶124-125 concerning Legacy Spectrum's internal controls were each inaccurate statements of material fact as of the RS Effective Date because they falsely certified the adequacy of Legacy Spectrum's internal controls and that management had found its internal controls over financial reporting effective based on their review. In fact, Legacy Spectrum's internal controls already suffered from significant deficiencies that resulted in the materially false and misleading portrayal of Legacy Spectrum's financial condition and the misrepresentation and omission of the following material adverse facts that existed prior to and on the RS Effective Date:

- (a) Prior to and on the RS Effective Date (as confirmed by former Legacy Spectrum and Spectrum employees), Legacy Spectrum's GAC or Auto Care segment had performed a huge inventory build in 2016, but due to poor inventory management practices, there was a sales slowdown in 2017 and 2018. This resulted in millions of dollars of obsolete inventory that had to be written off or liquidated;

- (b) Prior to and on the RS Effective Date, Legacy Spectrum's Income was overstated due to the undisclosed overstatement of GAC Goodwill by at least \$92.5 million, which thereby inflated Legacy Spectrum's Income figures;
- (c) Prior to and on the RS Effective Date, SBH EBITDA was overstated due to, *inter alia*, (i) the undisclosed accumulation of millions of dollars of obsolete inventory that had to be written off or liquidated (at H&G, PET, and GAC), (ii) undisclosed, unfavorable manufacturing variances (at H&G and PET), (iii) undisclosed operating inefficiencies, and (iv) the failure to timely recognize a multiyear duty catch-up accrual to "clean up" GAC's balance sheet;
- (d) Prior to and on the RS Effective Date, Legacy Spectrum's Inventories were overstated. Specifically, the GAC, H&G, and PET segments each had undisclosed excess and obsolete inventory that had to be written off and liquidated to "clean up" their respective balance sheets; and
- (e) Prior to and on the RS Effective Date, GAC (and therefore Legacy Spectrum) Goodwill was overstated by at least \$92.5 million.

**(b) HRG Internal Control Certifications**

127. The Registration Statement incorporated by reference false statements certifying, *inter alia*, that HRG's certifying officers: (i) designed such disclosure controls and procedures to ensure that material information relating to the registrant is made known; (ii) designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP; (iii) evaluated and presented conclusions about the effectiveness of the registrant's disclosure controls and procedures; and (iv) disclosed any change in the registrant's internal control over

financial reporting that has materially affected the registrant's internal control over financial reporting.

128. The following chart details each HRG SEC filing, as incorporated by reference into the Registration Statement, that included materially misleading internal control certifications, as well as the certifying officers that signed these false statements.

<b>HRG SEC Filing</b>	<b>Certifying Officers</b>
HRG 2017 10-K, Exhibits 31.1 and 31.2	Defendant Steinberg, Defendant Nicholson
HRG 1Q18 10-Q, Exhibits 31.1 and 31.2	Defendant Steinberg, Defendant Nicholson
HRG 2Q18 10-Q, Exhibits 31.1 and 31.2	Defendant Steinberg, Defendant Nicholson

129. The statements referenced above in ¶¶127-128 concerning HRG's internal controls were each inaccurate statements of material fact as of the RS Effective Date because they falsely certified the adequacy of HRG's internal controls and that management had found its internal controls over financial reporting effective based on their review. In fact, HRG's internal controls already suffered from significant deficiencies that resulted in the materially false and misleading portrayal of HRG's financial condition and the misrepresentation and omission of the following material adverse facts that existed prior to and on the RS Effective Date:

- (a) Prior to and on the RS Effective Date (as confirmed by former Legacy Spectrum and Spectrum employees), Legacy Spectrum's (*i.e.*, HRG's Consumer Products segment) GAC or Auto Care segment had performed a huge inventory build in 2016, but due to poor inventory management practices, there was a sales slowdown in 2017 and 2018. This resulted in millions of dollars of obsolete inventory that had to be written off or liquidated;

- (b) Prior to and on the RS Effective Date, HRG's Income was overstated due to the undisclosed overstatement of GAC Goodwill by at least \$92.5 million, which thereby inflated HRG's Income figures;
- (c) Prior to and on the RS Effective Date, SBH EBITDA was overstated due to, *inter alia*, (i) the undisclosed accumulation of millions of dollars of obsolete inventory that had to be written off or liquidated (at H&G, PET, and GAC), (ii) undisclosed, unfavorable manufacturing variances (at H&G and PET) (iii) undisclosed operating inefficiencies, and (iv) the failure to timely recognize a multiyear duty catch-up accrual to "clean up" GAC's balance sheet;
- (d) Prior to and on the RS Effective Date, HRG's Inventories were overstated. Specifically, Legacy Spectrum's (*i.e.*, HRG's Consumer Products segment) GAC, H&G, and PET segments each had undisclosed excess and obsolete inventory that had to be written off and liquidated to "clean up" their respective balance sheets; and
- (e) Prior to and on the RS Effective Date, GAC (and therefore HRG) Goodwill was overstated by at least \$92.5 million.

**3. The Registration Statement Failed to Disclose and Misrepresented Significant Risks that Made the Merger More Speculative and Risky**

130. Legacy Spectrum's and HRG's pre-Merger SEC filings, incorporated by reference into the Registration Statement, contained materially misleading risk factors. Specifically, the pre-Merger SEC filings included false statements that purported to warn of Inventories and Goodwill risks that "may" adversely affect Legacy Spectrum and HRG, respectively, while failing to disclose that these very "risks" had materialized prior to and on the RS Effective Date.

(a) **Legacy Spectrum Risk Factors**

131. The Legacy Spectrum 2017 10-K and Legacy Spectrum Updated 2017 10-K contained the following materially false and misleading risk factors concerning Inventories reported under Item 1A, Risk Factors and Exhibit 99.2, Item 1A, Risk Factors, respectively:

- We *may* face excess and obsolete inventory risk related to non-compliant inventory that we may hold for which there is reduced demand, and we *may* need to write down the carrying value of such inventories.
- Due to a number of factors, including (i) manufacturing lead-times, (ii) seasonal purchasing patterns and (iii) the potential for material price increases, we may be required to shorten our lead-time for production and more closely anticipate our retailers' and customers' demands, which could in the future require us to carry additional inventories and increase our working capital and related financing requirements. This *may* increase the cost of warehousing inventory or result in excess inventory becoming difficult to manage, unusable or obsolete. In addition, if our retailers significantly change their inventory management strategies, we *may* encounter difficulties in filling customer orders or in liquidating excess inventories, or *may* find that customers are cancelling orders or returning products, which may have a material adverse effect on our business.

132. The Legacy Spectrum 2017 10-K and Legacy Spectrum Updated 2017 10-K also contained the following materially false and misleading risk factor concerning Goodwill reported under Item 1A, Risk Factors and Exhibit 99.2, Item 1A, Risk Factors, respectively:

- *If* our goodwill, indefinite-lived intangible assets or other long-term assets become impaired, we will be required to record additional impairment charges, which may be significant.... [W]e *may* be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill, indefinite-lived intangible assets or other long-term assets is determined. Any such impairment charges could have a material adverse effect on our business, financial condition and operating results.

133. The statements referenced above in ¶¶131-132 concerning Legacy Spectrum's Inventories and Goodwill were each inaccurate statements of material fact as of the RS Effective Date because they purported to warn of risks that "may" adversely affect Legacy Spectrum, when in fact these very risks had already materialized and existed prior to and on the RS Effective Date:

- (a) Prior to and on the RS Effective Date (as confirmed by former Legacy Spectrum and Spectrum employees), Legacy Spectrum's GAC or Auto Care segment had performed a huge inventory build in 2016, but due to poor inventory management practices, there was a sales slowdown in 2017 and 2018. This resulted in millions of dollars of obsolete inventory that had to be written off or liquidated;
- (b) Prior to and on the RS Effective Date, Legacy Spectrum's Inventories were overstated. Specifically, the GAC, H&G, and PET segments each had undisclosed excess and obsolete inventory that had to be written off and liquidated to "clean up" their respective balance sheets; and
- (c) Prior to and on the RS Effective Date, GAC (and therefore Legacy Spectrum) Goodwill was overstated by at least \$92.5 million.

**(b) HRG Risk Factors**

134. The HRG 2017 10-K and HRG Updated 2017 10-K contained the following materially false and misleading risk factors concerning Inventories reported under Item 1A, Risk Factors and Exhibit 99.2, Item 1A, Risk Factors, respectively:

- [Legacy Spectrum] *may* face excess and obsolete inventory risk related to non-compliant inventory that it may hold for which there is reduced demand, and it *may* need to write down the carrying value of such inventories.
- Due to a number of factors, including (i) manufacturing lead-times, (ii) seasonal purchasing patterns and (iii) the potential for material price increases, [Legacy Spectrum] may be required to shorten its lead-time for production and more closely anticipate its retailers' and customers' demands, which could in the future require [Legacy Spectrum] to carry additional inventories and increase its working capital and related financing requirements. This *may* increase the cost of warehousing inventory or result in excess inventory becoming difficult to manage, unusable or obsolete. In addition, if [Legacy Spectrum] retailers significantly change their inventory management strategies, [Legacy Spectrum] *may* encounter difficulties in filling customer orders or in liquidating excess inventories, or *may* find that customers are cancelling orders or returning products, which may have a material adverse effect on its business.

135. The HRG 2017 10-K and HRG Updated 2017 10-K also contained the following materially false and misleading risk factor concerning Goodwill reported under Item 1A, Risk Factors and Exhibit 99.2, Item 1A, Risk Factors, respectively:

- *If* [Legacy Spectrum's] goodwill, indefinite-lived intangible assets or other long-term assets become impaired, [Legacy Spectrum] will be required to record additional impairment charges, which may be significant.... [Legacy Spectrum] **may** be required to record a significant charge to earnings in its financial statements during the period in which any impairment of its goodwill, indefinite-lived intangible assets or other long-term assets is determined. Any such impairment charges could have a material adverse effect on [Legacy Spectrum's] business, financial condition and operating results.

136. The statements referenced above in ¶¶134-135 concerning HRG's Consumer Products segment's (*i.e.*, Legacy Spectrum) Inventories and Goodwill were each inaccurate statements of material fact as of the RS Effective Date because they purported to warn of risks that "may" adversely affect Legacy Spectrum, when in fact these very risks had already materialized and existed prior to and on the RS Effective Date:

- (a) Prior to and on the RS Effective Date (as confirmed by former Legacy Spectrum and Spectrum employees), Legacy Spectrum's (*i.e.*, HRG's Consumer Products segment) GAC or Auto Care segment had performed a huge inventory build in 2016, but due to poor inventory management practices, there was a sales slowdown in 2017 and 2018. This resulted in millions of dollars of obsolete inventory that had to be written off or liquidated;
- (b) Prior to and on the RS Effective Date, Legacy Spectrum's (*i.e.*, HRG's Consumer Products segment) Inventories were overstated. Specifically, the GAC, H&G, and PET segments each had undisclosed excess and obsolete inventory that had to be written off and liquidated to "clean up" their respective balance sheets; and

(c) Prior to and on the RS Effective Date, GAC (and therefore HRG) Goodwill was overstated by at least \$92.5 million.

**4. The Registration Statement Failed to Disclose Adverse Trends and Uncertainties Regarding the Build-Up of Obsolete Inventory**

137. The Registration Statement, including the pre-Merger SEC filings incorporated by reference therein, failed to disclose and misrepresented known materially adverse trends and uncertainties and significant factors that made the Merger speculative or risky.

138. Specifically, the Registration Statement failed to disclose that Legacy Spectrum and HRG were facing the trend of obsolete inventory build-up. Prior to and on the RS Effective Date (as confirmed by former Legacy Spectrum and Spectrum employees), Legacy Spectrum's GAC or Auto Care segment had performed a huge inventory build in 2016, but due to poor inventory management practices, there was a sales slowdown in 2017 and 2018. This resulted in millions of dollars of obsolete inventory that had to be written off or liquidated.

139. In violation of Item 303, the Registration Statement failed to disclose that these undisclosed facts were known and would (and did) have an unfavorable impact on Legacy Spectrum's and HRG's financial condition, respectively, including but not limited to their Income, SBH EBITDA, Inventories, and Goodwill.

140. This failure also violated Item 503, because these specific risks were not adequately disclosed, or disclosed at all, in the Registration Statement, even though they were some of the most significant factors that made the Merger speculative or risky.

**D. Events After the Merger**

141. Prior to the Merger, Legacy Spectrum suffered from ongoing operational inefficiencies and supply chain disruptions related to manufacturing and distribution facility consolidations in Kansas (HHI) and Ohio (GAC). On April 26, 2018, Legacy Spectrum issued a

press release announcing its results from continuing operations for the second quarter of fiscal 2018 ended April 1, 2018 (“2Q18”). In the 2Q18 press release, Defendant Maura conceded that Legacy Spectrum’s “second quarter performance was very disappointing,” including “pronounced” EBITDA and margin declines, and that the “most significant drivers were ... late quarter major manufacturing and distribution center operating inefficiencies.” Nevertheless, Defendant Maura stressed that “*U.S. facility operating inefficiencies are transitory in nature* and the adverse margin impact from them is temporary. Second quarter margins are not representative of the underlying margin structure of each business for the balance of this year....”

142. During the related 2Q18 earnings call, Defendant Maura clarified Legacy Spectrum’s current financial condition: “I have two big focuses. One is we’re going to drive efficiencies in these plants and restore customer service.... [W]e need to start putting up numbers and delivering sales and EBITDA growth and restore the free cash flow of this company, that’s job one and *that’s happening*. Job two, I want to materially delever this company’s balance sheet.” Defendant Maura also claimed that Legacy Spectrum’s issues were one-time in nature: “I am already through April, and *I see material improvements*.... [W]hy don’t I let [CFO] Doug [Martin] walk you through exactly the logistics of what happened in the month of March? I think that granularity will help you understand just how *one-time* it is.”

143. The market largely accepted Defendant Maura’s official story. For example, BMO Capital Markets noted, “We view the operational issues as *transitory*,” while Deutsche Bank Markets Research stressed, “We are convinced that these issues are *transitory (not structural)* ... [as the] company has now brought in operational experts and new front-line management to rectify these problems noting that efficiency levels have begun to improve in April.” Similarly, G.research, LLC reasoned, “Despite the *one-time disruption* from distribution

centers consolidating, fundamentals remain strong and we remain confident in management's ability to create value."

144. Not all analysts were convinced by Defendant Maura's official story. For example, Oppenheimer explained that Legacy Spectrum was "[s]till plagued by ongoing operational/ramp-up issues at its two new facilities.... This comes as a surprise, as these facilities **should have ramped long ago.**" Wells Fargo Securities expressed the same concerns, emphasizing: "There was no sugarcoating it, SPB's [2Q18] results were exceptionally disappointing, and we are concerned that some of the transitory issues negatively impacting [2Q18] results ... are becoming part of SPB's normal operating cadence."

145. Later in May 2018, Oppenheimer observed that "[d]uring recent investor meetings, newly-appointed CEO David Maura emphasized the majority of SPB's ailments have been self-inflicted.... Repairing self-inflicted wounds remains a key focus, particularly at the HHI distribution center in Kansas and the GAC manufacturing plant in Dayton[, Ohio].... Overall, **Maura is focused intensely on repairing self-inflicted wounds**, completing the HRG deal and finalizing asset divestitures."

146. On July 26, 2018, less than two weeks after HRG's common stock began trading under Legacy Spectrum's ticker symbol "SPB," Spectrum issued a press release announcing its results from continuing operations for the third quarter of fiscal 2018 ended June 30, 2018 ("3Q18"). In the 3Q18 press release, Defendant Maura declared success: "I am pleased to report to you today that the **turnaround of our HHI and GAC business units is well under way**.... Led by double-digit growth in our HHI and Auto Care businesses and a strong top line in Home & Garden, we reported our highest organic sales growth rate in many years in the third quarter.... I am particularly pleased with our EBITDA margin recovery in our GAC business...."

147. As with Legacy Spectrum's 2Q18 release, the market largely accepted Defendant Maura's official story. For example, Oppenheimer stated, "With solid operational improvements at its key facilities, the company reiterated fiscal 2018 guidance of adjusted EBITDA.... Overall, it *appears new CEO David Maura has put the company's self-inflicted wounds in the rear-view mirror.*" Similarly, G.research, LLC noted, "We are encouraged by Spectrum Brands [sic] strong rebound from last quarter, as well as by newly-appointed CEO David Maura's focus on increasing accountability and transparency at the company.... Further, fundamentals at Spectrum remain intact."

148. With the purported recovery of the Auto Care business by July 2018, Spectrum left the market puzzled with a November 15, 2018 press release announcing the Company had "entered into a definitive agreement to sell its Global Auto Care (GAC) business to Energizer Holdings ... in a transaction valued at \$1.25 billion."

149. An analyst report from Wells Fargo Securities epitomized the market's confusion at Spectrum's agreement to sell its Auto Care business: "[T]oday's ... release ultimately raises more questions than answers, including: (1) Why sell the relatively stable GAC biz [sic] (esp. now that supply chain issues are likely in the rear view mirror).... [W]e are somewhat surprised that SPB chose an outright sale at a time when the GAC business was theoretically poised for better performance."

150. On November 19, 2018 (four months after the Merger and four days after Spectrum announced it would sell its Auto Care business), the Company issued a press release announcing its results from continuing operations for the fourth quarter of fiscal 2018 ended September 30, 2018 ("4Q18")—the same quarter in which the Merger closed. In the 4Q18 press release, the Company reported a net loss from continuing operations of \$(150.3) million and

diluted loss per share from continuing operations of \$(3.00) for 4Q18 “*primarily due to the write-off from impairment of goodwill* [in Auto Care], *HRG merger costs*, lower gross profit and *higher distribution costs*.” The Company also reported an operating loss of \$(78.8) million for 4Q18 “primarily as a result of the write-off from impairment of goodwill in Global Auto Care, HRG merger costs, operating inefficiencies, input cost inflation and higher distribution costs.” The 4Q18 press release reported a ***\$92.5 million write-off from impairment of goodwill***.

151. In the same 4Q18 press release, Spectrum reported adjusted EBITDA of \$134.1 million and an adjusted EBITDA margin of 17 percent for 4Q18 “primarily due to *operating inefficiencies*, input cost inflation and *higher distribution costs*.” The Company also reported fiscal 2018 adjusted EBITDA from continuing operations of \$561.9 million, ***\$38.1 to \$55.1 million lower*** than the \$600 to \$617 million projection provided in the 3Q18 press release.

152. Spectrum conceded that 4Q18 results, “notably adjusted EBITDA and margins, were disappointing across the business units, which cumulatively resulted in adjusted EBITDA coming in below expectations.” The Company summarized its adjusted EBITDA results:

- Home & Garden – \$12 million driven by lower-than-expected volume, related *unfavorable manufacturing variances* as production volumes were reduced, an early retailer shutdown of the season, the absence of hurricane-driven demand for insecticides and repellents, lower vendor rebates, and a legal reserve for an emerging claims issues.
- Global Pet Supplies – \$7 million due to lower-than-expected revenue and related *unfavorable manufacturing variances* as production volumes were reduced.
- Global Auto Care – \$18 million related to low-margin *excess and obsolete inventory liquidation*, lower volume related to greater-than-expected retailer inventory reductions, *Dayton plant inefficiencies, physical inventory adjustments and scrap relating to the facility consolidation projects*, and a cumulative correction of duty rates on a significant sourced component.

- Hardware & Home Improvement – \$6 million related to lower growth than forecast.

Spectrum reported that “[a]djusted free cash flow of \$386 million was also below guidance due to the adjusted EBITDA shortfall ... as well as higher year-end inventory levels than planned.”

153. During the related 4Q18 earnings call, Defendant Maura explained with greater detail and specificity “the issues that impacted [Spectrum’s] fourth quarter.” First, Defendant attributed Spectrum’s disappointing earnings to the Auto Care segment, where the Company “*wrote off and liquidated excess and obsolete inventory to clean up the balance sheet of that division*, and we also established reserves for a multiyear duty catch-up accrual. These actions prepared the Auto Care business for the sale to Energizer at a very healthy state.” Next, in the Home and Garden segment, the Company “established an accrual for a legal claim. We took lower vendor rebates, and similar to the Auto Care unit, *we wrote off excess and obsolete inventory in this business.*” Then, in the Global Pet Supplies segment, the Company “did also, here, *liquidate some excess and obsolete inventory in the quarter to end ’18 with a cleaner balance sheet in this business.*”

154. During the questions and answers (“Q&A”) portion of the same 4Q18 earnings call, a Bank of America analyst asked, “In the second quarter, you’d had some challenges in Kansas and Dayton[, Ohio] and then it sounded like a lot of those have been improved into the third quarter. I guess ... you can talk a little bit about what happened between the third and fourth quarter that reverted some of the challenges?” Defendant Maura replied, “[W]e had weather hurt us on Home & Garden side; Pet, we had issues in the [distribution center], in Europe. *On the GAC piece ... that was \$18 million of the delta, and that’s really related mostly to just inventory cleanup to get that balance sheet healthy for E&R.*”

155. In the same response to the Bank of America analyst's question, Defendant Maura also admitted, "[L]ook, in general, *I'm going to run this company much more conservatively* from both a [profit and loss ("P&L")] and a balance sheet standpoint, and *that's the reality.*" Defendant Maura's candid admission suggests that Legacy Spectrum and HRG (specifically, HRG's Consumer Products segment) had previously been run *much less conservatively*—or with much more risk—from both a P&L and a balance sheet perspective. Defendant Maura all but admitted that Legacy Spectrum's and HRG's prior period financial statements were at odds with "reality."

156. During the same 4Q18 earnings call, CFO Douglas L. Martin disclosed that the multiyear duty catch-up accrual Defendant Maura referred to relates to *issues that preceded the Merger*: "The duty issue that we mentioned was a multiyear duty issue in the Global Auto Care business that was discovered in August as we were reviewing potential implications from new tariffs, and so *it was a cleanup that actually preceded our ownership of the business* [(i.e., Spectrum's ownership of the Auto Care business resulting from the Merger)]."

157. As with Legacy Spectrum's pre-Merger 2Q18 results, Defendant Maura repeated the same official story for 4Q18: "[T]he issues that impacted our fourth quarter versus our expectation were largely *onetime [sic] in nature*.... [T]here's a number of onetime [sic] things here and there's also a lot of intentional cleanup."

158. This time around, the market no longer accepted Defendant Maura's official story. In a pre-4Q18 earnings call report, Wells Fargo Securities provided its "SPB Thesis: We are *concerned that some of the transitory issues that have negatively impacted recent results ... are becoming part of SPB's normal operating cadence.*" Following the 4Q18 earnings call, Wells Fargo Securities updated its analysis:

While last week's announcement of the Global Auto Care ... sale hinted at some operational misfires in [4Q18], ***clearly things were much worse than feared, confirming our lingering concerns about SPB's ability to execute across its core businesses.*** Moreover, forward visibility across the P&L is very limited, and we admittedly have little confidence in mgmt.'s call for 'meaningful' [full-year 2019] organic net sales growth after ***yet another quarter of 'one-off' challenges....*** We lower our ... ests. ... to reflect what we believe is a ***much more challenged fundamental backdrop than even our prior conservative ests. contemplated.***

While Defendant Maura portrayed Legacy Spectrum and Spectrum's pre- and post-Merger issues as "transitory" and "one-time," the truth was that fundamental and structural issues plaguing Legacy Spectrum and Spectrum were neither disclosed in the Registration Statement nor known to investors prior to the 4Q18 earnings release.

159. Other analysts agreed. In another post-4Q18 earnings call report, Deutsche Bank Research expressed doubts about Defendant Maura's official story:

***We no longer have conviction that SPB's business results have bottomed.... We were hopeful last quarter that the company had finally overcome its many issues – which we previously viewed as 'transitory.'*** However, at this point, ***given a lack of visibility and continuing 'one-time' issues, it is apparent that there are underlying structural issues that will take time (we assume 12+ months) and investment dollars to resolve....*** SPB used to be a reliable free cash flow conversion story; it was not about growth, marketing, or investments. Over the last two years, however, there have been ***many execution mis-steps, and the script has now changed entirely....***

RBC Capital Markets articulated the same concerns: "Over the past year, a ***series of issues have more than weighed on the company's fundamentals*** including retailer de-stocking, tariffs, recalls, and out-of-stocks related to supply chain disruption in Auto Care."

160. The nature of these accounting adjustments (including but not limited to the \$92.5 million goodwill write-down in GAC, the excess and obsolete inventory liquidations in GAC, H&G and PET, and the multiyear duty catch-up accrual in GAC) indicates that Legacy

Spectrum's and HRG's prior period financial statements incorporated into the Registration Statement were materially false and misleading.

161. As a result of the material misrepresentations and omissions of material facts in the Registration Statement, Spectrum's common stock closed at \$57.51 per share as of April 9, 2019 (the filing date of this Action)—*30 percent less than the \$82.72 per share Merger price*. Demonstrating the materiality of the post-Merger disclosures, Spectrum's common stock price never recovered. As of August 15, 2019 (the last trading day before this Amended Complaint was filed), Spectrum's common stock closed at \$49.24 per share.

## V. CLASS ACTION ALLEGATIONS

162. Plaintiff brings this Action as a class action pursuant to Wis. Stat. Section 803.08 on behalf of a class consisting of all persons and entities that purchased or otherwise acquired Spectrum common stock pursuant or traceable to the Registration Statement for the Merger, and who were damaged thereby (the "Class"). Excluded from the Class: Defendants; the Individual Defendants' immediate family members; the officers, directors, and affiliates of Spectrum, at all relevant times; any entity in which Defendants have or had a controlling interest; Spectrum's and HRG's employee retirement and/or benefit plan(s) and their participants and/or beneficiaries to the extent they purchased or acquired Spectrum common stock through any such plan(s); and the legal representatives, heirs, successors, or assigns of any such excluded person or entity.

163. The members of the Class are so numerous that joinder of all members is impracticable. The exact number of Class members is unknown to Plaintiff at this time and can be ascertained through appropriate discovery. Plaintiff believes that there are hundreds or thousands of members in the proposed Class as the Company registered and offered approximately 20.9 million shares of common stock in the Merger. Record owners and other members of the Class may be identified from records maintained by Spectrum or its transfer

agent and may be notified of the pendency of this Action by mail, using the form of notice similar to that customarily used in securities class actions.

164. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of the Securities Act as set forth herein.

165. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation.

166. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- (a) whether Defendants violated the Securities Act;
- (b) whether the Registration Statement contained inaccurate statements of material facts and/or omitted material information required to be stated therein; and
- (c) to what extent the members of the Class have sustained damages and the proper measure of damages.

167. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this Action as a class action.

## VI. CAUSES OF ACTION

### COUNT I FOR VIOLATION OF SECTION 11 OF THE SECURITIES ACT Against Spectrum, HRG, and the Individual Defendants

168. Plaintiff repeats and realleges each and every allegation above as if fully set forth herein.

169. This cause of action is brought pursuant to Section 11 of the Securities Act, 15 U.S.C. § 77k, on behalf of the Class, against Spectrum, HRG, and the Individual Defendants.

170. This cause of action does not sound in fraud. Plaintiff does not allege that any of the Defendants committed intentional or reckless misconduct or that any of the Defendants acted with scienter or fraudulent intent, which are not elements of a Section 11 claim. This claim is based solely on negligence and/or strict liability. Plaintiff expressly disclaims any allegations of scienter or fraudulent intent in these non-fraud claims except that any challenged statements of opinion or belief made in connection with the Merger are alleged to have been materially misstated statements of opinion or belief when made.

171. The Registration Statement issued in connection with the Merger was inaccurate and misleading, contained untrue statements of material facts, omitted material facts necessary to make the statements made not misleading, and omitted material facts required to be stated therein.

172. Spectrum, previously HRG, is the registrant for the Merger and the issuer of the common stock at issue in this Action. As such, Spectrum and HRG are strictly liable for the materially inaccurate statements contained in the Registration Statement and the failure of the Registration Statement to be complete and accurate. By virtue of the Registration Statement containing material misrepresentations and omissions of material facts necessary to make the

statements therein not false and misleading, Spectrum and HRG are liable under Section 11 of the Securities Act to Plaintiff and the Class.

173. None of the Defendants named herein made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Registration Statement were true and without omissions of any material facts and were not misleading.

174. The Individual Defendants each signed the Registration Statement and caused its issuance. The Individual Defendants each had a duty to make a reasonable and diligent investigation of the truthfulness and accuracy of the statements contained in the Registration Statement. They each had a duty to ensure that such statements were true and accurate and that there were no omissions of material facts that would make the statements misleading. By virtue of each of the Individual Defendants' failure to exercise reasonable care, the Registration Statement contained misrepresentations of material facts and omissions of material facts necessary to make the statements therein not misleading. As such, each of the Individual Defendants is liable under Section 11 of the Securities Act to Plaintiff and the Class.

175. None of the untrue statements or omissions of material facts in the Registration Statement alleged herein was a forward-looking statement. Rather, each such statement concerned existing facts. Moreover, the Registration Statement did not properly identify any of the untrue statements as forward-looking statements and did not disclose information that undermined the putative validity of those statements.

176. By reason of the conduct alleged herein, each Defendant named in this Count violated, and/or controlled a person who violated, Section 11 of the Securities Act.

177. Plaintiff and the Class have sustained damages. The value of Spectrum common stock has declined substantially subsequent to and due to the violations by each Defendant named in this Count.

178. At the time of their acquisition of Spectrum common stock, Plaintiff and other members of the Class were without knowledge of the facts concerning the wrongful conduct alleged herein and could not have reasonably discovered those facts prior to the disclosures herein. Less than one year has elapsed from the time that Plaintiff discovered or reasonably could have discovered the facts upon which this Complaint is based and the time that Plaintiff commenced this Action. Less than three years has elapsed between the time that the securities upon which this cause of action is brought were offered and the time that Plaintiff commenced this Action.

**COUNT II**  
**FOR VIOLATION OF SECTION 12(a)(2) OF THE SECURITIES ACT**  
**Against Spectrum, HRG, and the Individual Defendants**

179. Plaintiff repeats and realleges each and every allegation above as if fully set forth herein.

180. This cause of action is brought pursuant to Section 12(a)(2) of the Securities Act, 15 U.S.C. § 77l(a)(2), on behalf of the Class, against Spectrum, HRG, and the Individual Defendants.

181. This cause of action does not sound in fraud. Plaintiff does not allege that any of the Defendants committed intentional or reckless misconduct or that any of the Defendants acted with scienter or fraudulent intent, which are not elements of a Section 12(a)(2) claim. This claim is based solely on negligence and/or strict liability. Plaintiff expressly disclaims any allegations of scienter or fraudulent intent in these non-fraud claims except that any challenged statements of

opinion or belief made in connection with the Merger are alleged to have been materially misstated statements of opinion or belief when made.

182. The Defendants named in this Count were sellers, offerors, and/or solicitors of acquirers of the Company's common stock pursuant to the defective Prospectus.

183. The Prospectus contained untrue statements of material facts, omitted other facts necessary to make statements made therein not misleading, and omitted material facts required to be stated therein. The actions of solicitation by the Defendants named in this Count included participating in the preparation of the false and misleading Prospectus, roadshow, and marketing of Spectrum common stock to investors, such as Plaintiff and the other members of the Class.

184. Defendants named in this Count owed to the acquirers of Spectrum common stock, including Plaintiff and other members of the Class, the duty to make a reasonable and diligent investigation of the statements contained in the Registration Statement to ensure that such statements were true and that there were no omissions of material facts required to be stated in order to make the statements contained therein not misleading. By virtue of each of these Defendants' failure to exercise reasonable care, the Registration Statement contained misrepresentations of material facts and omissions of material facts necessary to make the statements therein not misleading.

185. Plaintiff did not know, nor in the exercise of reasonable diligence could Plaintiff have known, of the untruths and omissions contained in the Prospectus at the time Plaintiff acquired Spectrum common stock.

186. By reason of the conduct alleged herein, the Defendants named in this Count violated Section 12(a)(2) of the Securities Act. As a direct and proximate result of such violation, Plaintiff and the other members of the Class who acquired Spectrum common stock pursuant or

traceable to the Registration Statement sustained substantial damages in connection with their acquisition of shares. Accordingly, Plaintiff and the other members of the Class who hold the shares issued pursuant to the Registration Statement have the right to rescind and recover the consideration paid for their shares with interest thereon or damages as allowed by law or in equity. Class members who have sold their Spectrum shares seek damages to the extent permitted by law.

**COUNT III**  
**FOR VIOLATION OF SECTION 15 OF THE SECURITIES ACT**  
**Against the Individual Defendants**

187. Plaintiff repeats and realleges each and every allegation above as if fully set forth herein.

188. This cause of action is brought pursuant to Section 15 of the Securities Act, 15 U.S.C. § 77o, on behalf of the Class, against each of the Individual Defendants.

189. This cause of action does not sound in fraud. Plaintiff does not allege that any of the Defendants committed intentional or reckless misconduct or that any of the Defendants acted with scienter or fraudulent intent, which are not elements of a Section 15 claim. This claim is based solely on negligence and/or strict liability. Plaintiff expressly disclaims any allegations of scienter or fraudulent intent in these non-fraud claims except that any challenged statements of opinion or belief made in connection with the Merger are alleged to have been materially misstated statements of opinion or belief when made.

190. The Individual Defendants each were control persons of Spectrum and HRG by virtue of their positions as directors and/or senior officers of Spectrum and HRG. The Individual Defendants each had a series of direct and/or indirect business and/or personal relationships with other directors and/or officers and/or major shareholders of Spectrum and HRG.

191. Each of the Individual Defendants participated in the preparation and dissemination of the Registration Statement, and otherwise participated in the process necessary to conduct the Merger. Because of their positions of control and authority as senior officers and/or directors, each of the Individual Defendants were able to, and did, control the contents of the Registration Statement, which contained materially untrue information and omitted material information required to be disclosed to prevent the statements made therein from being misleading.

192. As control persons of Spectrum, previously HRG, each of the Individual Defendants is liable jointly and severally with and to the same extent as Spectrum, previously HRG, for violations of Section 11 of the Securities Act.

## **VII. PRAYER FOR RELIEF**

WHEREFORE, Plaintiff, on behalf of itself and the other members of the Class, prays for relief and judgment, as follows:

(a) Determining that this Action is a proper class action, certifying Plaintiff as Class representative, and appointing Plaintiff's counsel as Class Counsel;

(b) Awarding compensatory damages in favor of Plaintiff and other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

(c) Awarding rescission or a rescissory measure of damages;

(d) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this Action, including attorneys' fees, accountants' fees, and expert fees, and other costs and disbursements; and

(e) Awarding Plaintiff and the Class such other relief including equitable and/or injunctive relief as deemed appropriate by the Court.

**VIII. JURY TRIAL DEMANDED**

Plaintiff hereby demands a trial by jury of all issues so triable.

Dated this 16 August 2019

Respectfully submitted,

**MICHAEL BEST & FRIEDRICH LLP**

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