HARBINGER GROUP INC.
Form 10-Q
August 08, 2014

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from to

Commission file number: 1-4219

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

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

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

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

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

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

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

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

There were 206,595,655 shares of the registrant’s common stock outstanding as of August 4, 2014.

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

	June 30, 2014 (Unaudited)	September 30, 2013
ASSETS		
Investments:		
Fixed maturities	$16,767.1	$15,300.0
Equity securities	760.7	352.5
Derivatives	324.7	221.8
Asset-based loans	724.3	560.4
Other invested assets	174.3	31.2
Total investments	18,751.1	16,465.9
Cash and cash equivalents	1,455.9	1,899.7
Receivables, net	664.9	611.3
Inventories, net	746.7	632.9
Accrued investment income	159.9	161.2
Reinsurance recoverable	2,393.7	2,363.7
Deferred tax assets	145.9	293.4
Properties, including oil and natural gas properties, net	924.5	993.3
Goodwill	1,539.1	1,476.7
Intangibles, including deferred acquisition costs and value of business acquired, net	2,664.8	2,729.1
Other assets	438.7	281.6
Total assets	$29,885.2	$27,908.8
LIABILITIES AND EQUITY		
Insurance reserves:		
Contractholder funds	$16,217.9	$15,248.2
Future policy benefits	3,671.0	3,556.8
Liability for policy and contract claims	61.0	51.5
Funds withheld from reinsurers	38.1	39.4
Total insurance reserves	19,988.0	18,895.9
Debt	5,303.4	4,896.1
Accounts payable and other current liabilities	899.9	1,012.7
Equity conversion feature of preferred stock	—	330.8
Employee benefit obligations	87.4	99.6
Deferred tax liabilities	522.2	492.8
Other liabilities	733.6	718.0
Total liabilities	27,534.5	26,445.9
Commitments and contingencies		
Temporary equity:		
Redeemable preferred stock	—	329.4

Harbinger Group Inc. stockholders' equity:		
Common stock	2.1	1.4
Additional paid-in capital	1,500.9	828.0
Accumulated deficit	(270.0)	(192.4)
Accumulated other comprehensive income	301.3	87.7
Total Harbinger Group Inc. stockholders' equity	1,534.3	724.7
Noncontrolling interest:	816.4	408.8
Total permanent equity	2,350.7	1,133.5
Total liabilities and equity	$29,885.2	$27,908.8

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Revenues:				
Net consumer and other product sales	$1,133.2	$1,089.8	$3,255.5	$2,947.8
Oil and natural gas	37.6	37.8	112.3	54.5
Insurance premiums	13.3	19.0	42.0	46.9
Net investment income	210.9	188.2	618.5	537.5
Net investment gains	184.6	58.3	367.4	411.5
Insurance and investment product fees and other	19.8	16.1	54.9	44.4
Total revenues	1,599.4	1,409.2	4,450.6	4,042.6
Operating costs and expenses:				
Cost of consumer products and other goods sold	714.9	707.0	2,096.4	1,954.0
Oil and natural gas direct operating costs	17.7	18.1	50.9	26.9
Benefits and other changes in policy reserves	265.1	107.2	696.3	431.7
Selling, acquisition, operating and general expenses	331.9	309.3	979.9	877.4
Impairment of oil and natural gas properties	—	—	81.0	—
Amortization of intangibles	40.7	85.0	121.5	220.6
Total operating costs and expenses	1,370.3	1,226.6	4,026.0	3,510.6
Operating income	229.1	182.6	424.6	532.0
Interest expense	(77.9)	(83.9)	(239.1)	(302.7)
Gain (loss) from the change in the fair value of the equity conversion feature of preferred stock	38.0	52.6	(12.7)	81.9
Gain on contingent purchase price reduction	—	—	0.5	—
Other income (expense), net	6.0	4.2	(10.5)	(7.7)
Income from continuing operations before income taxes	195.2	155.5	162.8	303.5
Income tax expense	53.7	36.8	78.7	167.2
Net income	141.5	118.7	84.1	136.3
Less: Net income (loss) attributable to noncontrolling interest	43.2	15.1	88.1	(8.1)
Net income (loss) attributable to controlling interest	98.3	103.6	(4.0)	144.4
Less: Preferred stock dividends, accretion and loss on conversion	49.3	12.0	73.6	36.3
Net income (loss) attributable to common and participating preferred stockholders	$49.0	$91.6	$(77.6)	$108.1
Net income (loss) per common share attributable to controlling interest:				
Basic	$0.28	$0.45	$(0.52)	$0.54
Diluted	$0.28	$0.25	$(0.52)	$0.30

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Net income	$141.5	$118.7	$84.1	$136.3
Other comprehensive income (loss)				
Foreign currency translation gains (losses)	8.4	(7.8)	5.6	(25.4)
Net unrealized (loss) gain on derivative instruments				
Changes in derivative instruments before reclassification adjustment	(3.0)	3.2	(3.9)	4.6
Net reclassification adjustment for losses (gains) included in net income	1.3	(0.5)	2.2	(0.1)
Changes in derivative instruments after reclassification adjustment	(1.7)	2.7	(1.7)	4.5
Changes in deferred income tax asset/liability	0.3	(0.4)	0.2	(1.5)
Deferred tax valuation allowance adjustments	(0.1)	(0.5)	(0.1)	(0.1)
Net unrealized (loss) gain on derivative instruments	(1.5)	1.8	(1.6)	2.9
Actuarial adjustments to pension plans				
Changes in actuarial adjustments before reclassification adjustment	0.2	(0.6)	(0.4)	(2.2)
Net reclassification adjustment for losses included in cost of goods sold	0.2	0.3	0.4	1.0
Net reclassification adjustment for losses included in selling and general and administrative expenses	0.2	0.2	0.7	0.6
Changes in actuarial adjustments to pension plans	0.6	(0.1)	0.7	(0.6)
Changes in deferred income tax asset/liability	(0.2)	—	(0.2)	0.2
Deferred tax valuation allowance adjustments	—	—	—	0.1
Net actuarial adjustments to pension plans	0.4	(0.1)	0.5	(0.3)
Unrealized investment gains (losses):				
Changes in unrealized investment gains before reclassification adjustment	350.6	(559.2)	727.2	(379.1)
Net reclassification adjustment for gains included in net income	(71.5)	(35.3)	(89.8)	(281.8)
Changes in unrealized investment gains (losses) after reclassification adjustment	279.1	(594.5)	637.4	(660.9)
Adjustments to intangible assets	(86.1)	210.7	(191.2)	260.9
Changes in deferred income tax asset/liability	(68.8)	135.4	(156.4)	140.9
Net unrealized gain (loss) on investments	124.2	(248.4)	289.8	(259.1)
Net change to derive comprehensive income (loss) for the period	131.5	(254.5)	294.3	(281.9)
Comprehensive income (loss)	273.0	(135.8)	378.4	(145.6)
Less: Comprehensive income (loss) attributable to the noncontrolling interest:				
Net income (loss)	43.2	15.1	88.1	(8.1)
Other comprehensive income (loss)	28.0	(2.5)	58.0	(9.6)
	71.2	12.6	146.1	(17.7)

Comprehensive income (loss) attributable to the controlling interest	$201.8	$(148.4)	$232.3	$(127.9)

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended June 30,	
	2014	2013
	(Unaudited)	
Cash flows from operating activities:		
Net income	$84.1	$136.3
Adjustments to reconcile net income to operating cash flows:		
Depreciation of properties	92.1	65.0
Amortization of intangibles	121.5	220.6
Impairment of oil and gas properties	81.0	—
Stock-based compensation	67.1	44.9
Amortization of debt issuance costs	14.7	10.3
Amortization of debt discount	2.2	1.1
Write-off of debt issuance costs on retired debt	6.4	15.5
Write-off of debt discount on retired debt	2.8	3.0
Deferred income taxes	(1.4)	164.6
Gain on contingent purchase price reduction	(0.5)	—
Interest credited/index credits to contractholder account balances	585.1	320.2
Collateral received (paid)	80.1	—
Amortization of fixed maturity discounts and premiums	(29.6)	24.4
Net recognized gains on investments and derivatives	(341.5)	(494.4)
Charges assessed to contractholders for mortality and administration	(34.4)	(23.9)
Deferred policy acquisition costs	(172.5)	(109.2)
Non-cash increase to cost of goods sold due to the sale of HHI Business acquisition inventory	—	31.0
Non-cash restructuring and related charges	4.0	—
Changes in operating assets and liabilities:	(396.8)	(315.4)
Net change in cash due to operating activities	164.4	94.0
Cash flows from investing activities:		
Proceeds from investments sold, matured or repaid	4,754.5	7,396.3
Cost of investments acquired	(5,929.7)	(7,271.4)
Acquisitions, net of cash acquired	(25.8)	(2,013.7)
Asset-based loans originated, net	(102.0)	(251.8)
Capital expenditures	(69.1)	(58.8)
Proceeds from sales of assets	9.1	—
Other investing activities, net	(0.1)	(0.6)
Net change in cash due to investing activities	(1,363.1)	(2,200.0)
Cash flows from financing activities:		
Proceeds from issuance of new debt	748.3	2,952.1
Repayment of debt, including tender and call premiums	(571.9)	(958.5)
Revolving credit facility activity	89.9	348.1
Debt issuance costs	(11.0)	(79.0)
Purchases of subsidiary stock, net	(8.3)	(73.9)
Contractholder account deposits	1,778.9	1,078.4
Contractholder account withdrawals	(1,360.8)	(1,323.7)
Dividend paid by subsidiary to noncontrolling interest	(20.7)	(12.1)
Dividends paid on preferred stock	(20.4)	(25.0)

Share based award tax withholding payments	(32.1)	(22.4)
Proceeds from initial public offering of subsidiary shares, less costs of issuance	172.6	—
Common stock repurchased	(12.1)	—
Other financing activities, net	2.5	—
Net change in cash due to financing activities	754.9	1,884.0
Effect of exchange rate changes on cash and cash equivalents	—	(5.0)
Net change in cash and cash equivalents	(443.8)	(227.0)
Cash and cash equivalents at beginning of period	1,899.7	1,470.7
Cash and cash equivalents at end of period	$1,455.9	$1,243.7

See accompanying notes to condensed consolidated financial statements.

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

(1) Description of Business

Harbinger Group Inc. ("HGI" and, collectively with its respective subsidiaries, the "Company") is a diversified holding company. HGI is focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries and growing acquired businesses. In addition to acquiring controlling interests, HGI may make investments in debt instruments, acquire minority equity interests in companies and expand its operating businesses. HGI’s shares of common stock trade on the New York Stock Exchange ("NYSE") under the symbol "HRG".

In December 2013, Fidelity & Guaranty Life ("FGL"), a then wholly-owned subsidiary of HGI, announced an initial public offering of 9,750 thousand shares of common stock at a price to the public of $17.00 per share. The shares began trading on the NYSE on December 13, 2013 under the ticker symbol "FGL". FGL also granted the underwriters an option to purchase an additional 1,463 thousand shares of common stock that was subsequently exercised. HGI was not a selling shareholder in the offering. Subsequent to the offering HGI held 47,000 thousand shares of FGL's outstanding common stock, representing an 80.4% interest as of June 30, 2014.

Also in December 2013, Front Street Re (Cayman) Ltd. ("Front Street Cayman"), a wholly-owned subsidiary of HGI, closed a reinsurance treaty with Bankers Life Insurance Company. Under the terms of the treaty, Bankers Life Insurance Company ceded approximately $153.0 of its annuity business to Front Street Cayman on a funds withheld basis.

Furthermore in December 2013, HGI's subsidiary Spectrum Brands Holdings, Inc., a Delaware corporation ("Spectrum Brands"), amended a senior secured term loan, issuing two tranches maturing September 4, 2019 which provide for borrowings in aggregate principal amounts of $215.0 and €225.0. The proceeds from the amendment were used to refinance a portion of the term loan which was scheduled to mature December 17, 2019 and had an aggregate amount outstanding of $513.3 prior to refinancing.

In January 2014, Spectrum Brands completed the $35.8 acquisition of The Liquid Fence Company, Inc. ("Liquid Fence"), a producer of animal repellents. See Note 3, Acquisitions.

Also in January 2014, HGI issued $200.0 aggregate principal amount of 7.75% senior unsecured notes due 2022 at par (the "7.75% Notes"). See Note 8, Debt.

In May 2014, HGI exercised its option to convert all but one of its issued and outstanding shares of Series A Participating Convertible Preferred Stock (“Series A Preferred Shares") and all of its outstanding Series A-2 Participating Convertible Preferred Stock (“Series A-2 Preferred Shares", together with the Series A Preferred Shares, the "Preferred Stock") into common stock of the Company, par value $0.01. Upon the conversion, holders of the Series A Preferred Shares received approximately 160.95 shares of common stock per Series A Preferred Share converted and holders of Series A-2 Preferred Share received approximately 148.11 shares of common stock per Series A-2 Preferred Share converted. Upon converting the outstanding preferred stock, the Company recognized a loss of $43.9, representing the difference between the fair value of the common stock issued on the conversion date and the aggregate recorded value of the preferred stock and the fair value of the equity conversion option as of the conversion date. The remaining Series A Preferred Shares will not be entitled to receive any dividends or distributions, and remains to preserve certain governance rights as set forth in the certificate of designation.

Also in May 2014, HGI exchanged $320.6 of its outstanding 7.875% Senior Secured Notes due 2019 (the “Senior Secured Notes”) for $350.0 aggregate principal amount of new 7.750% Senior Notes due 2022 (the “Additional 7.75% Notes”). Following settlement, HGI had $604.4 in aggregate principal amount of the Senior Secured Notes outstanding and $550.0 in aggregate principal amount of 7.750% Senior Notes due 2022 outstanding. See Note 8, Debt.

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In addition, in May 2014, HGI Funding, LLC ("HGI Funding"), a wholly-owned subsidiary of HGI completed the $13.5 acquisition of Frederick's of Hollywood Group Inc. ("FOH"), a retailer of women's apparel and related products. See Note 3, Acquisitions.
In June 2014, HGI purchased 1.0 million shares at a price of $12.10 per share, for an aggregate $12.1 under the $100.0 repurchase program authorized by HGI's Board of Directors earlier in the year.
The Company’s reportable business segments are organized in a manner that reflects how HGI’s management views those business activities. Accordingly, the Company currently operates its business in four reporting segments: (i) Consumer Products, (ii) Insurance, (iii) Energy, and (iv) Asset Management. For the results of operations by segment, and other segment data, see Note 16, Segment Data.

(2) Basis of Presentation, Significant Accounting Policies and Practices and Recent Accounting Pronouncements
Basis of Presentation
The accompanying unaudited Condensed Consolidated Financial Statements of the Company included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of such information. All such adjustments are of a normal recurring nature. Although the Company believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), have been condensed or omitted pursuant to such rules and regulations, except for such significant accounting policies that relate to the ceiling test on certain oil and natural gas properties, which are detailed below. Certain prior year amounts have been reclassified or combined to conform to the current year presentation. These reclassifications and combinations had no effect on previously reported results of operations or accumulated deficit. These interim financial statements should be read in conjunction with the Company’s annual consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2013, filed with the SEC on November 27, 2013 (the "Form 10-K"). The results of operations for the nine months ended June 30, 2014 are not necessarily indicative of the results for any subsequent periods or the entire fiscal year ending September 30, 2014.
The Company’s fiscal year ends on September 30 and the quarters end on the last calendar day of the months of December, March and June. The Company's significant subsidiary, Spectrum Brands' fiscal year ends September 30 and its interim fiscal quarters end every thirteenth Sunday, except for its first fiscal quarter which may end on the fourteenth Sunday following September 30. The Company does not adjust for the difference in fiscal periods between Spectrum Brands and itself, as such difference would be less than 93 days, pursuant to Regulation S-X Rule 3A-02.
At June 30, 2014, the non-controlling interest component of total equity represents the 41.3% share of Spectrum Brands, the 19.6% of FGL, the 83.0% share of CorAmerica Capital, LLC ("CorAmerica"), the 38.0% share of FOHG Holdings, LLC ("FOHG"), the 14.3% of Salus Capital Partners, LLC ("Salus"), and the 2.1% share of Zap.Com Corporation ("Zap.com") not owned by HGI.

Oil and natural gas properties
Ceiling Test
Pursuant to Rule 4-10(c)(4) of Regulation S-X, our equity investment in an oil and natural gas joint venture (Compass Production GP, LLC and Compass Production Partners, LP, collectively, and together with their respective subsidiaries, "Compass", also formerly known as "the EXCO/HGI JV") was required to compute a limitation on costs capitalized pursuant to their use of the full cost method of accounting for their oil and natural gas properties (the "ceiling test"), using the simple average spot price for the trailing twelve month period for oil and natural gas as of June 30, 2014. The ceiling test compares the net book value of the full cost pool, after taxes, to the full cost ceiling limitation defined below. In the event the full cost ceiling limitation is less than the full cost pool, Compass is required to record a ceiling test impairment of Compass' oil and natural gas properties. The full cost ceiling limitation is computed as the sum of the present value of estimated future net revenues from Compass'

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proved reserves by applying the average price as prescribed by the SEC Release No. 33-8995, less estimated future expenditures (based on current costs) to develop and produce the proved reserves, discounted at 10%, plus the cost of properties not being amortized and the lower of cost or estimated fair value of unproved properties included in the costs being amortized, net of income tax effects.
The ceiling test is computed using the simple average spot price for the trailing 12 month period using the first day of each month. For the 12 months ended June 30, 2014, the trailing 12 month reference prices were $4.10 per Mmbtu for natural gas at Henry Hub, and $100.11 per Bbl of oil for West Texas Intermediate at Cushing, Oklahoma. The price used for natural gas liquids was $44.13 per Bbl and was based on the trailing 12 month average of realized prices. Each of the reference prices for oil and natural gas are further adjusted for quality factors and regional differentials to derive estimated future net revenues. Under full cost accounting rules, any ceiling test impairments of oil and natural gas properties may not be reversed in subsequent periods. Since Compass does not designate its derivative financial instruments as hedging instruments, Compass is not allowed to use the impacts of the derivative financial instruments in the ceiling test computations.
Compass did not recognize an impairment to its proved oil and natural gas properties for the three months ended June 30, 2014 and June 30, 2013 and for the period from inception to period ended June 30, 2013. Compass recognized impairments of $81.0 to its proved oil and natural gas properties for the nine months ended June 30, 2014. We previously received an exemption from the SEC to exclude the acquisition of Compass' unamortized oil and natural gas properties from the ceiling test for a period of one year following the acquisition date and this exemption expired during the interim period ended March 31, 2014. The impairments primarily resulted from differences in the oil and natural gas prices utilized in the purchase price allocation at the acquisition date and the prices used in the ceiling test calculation. Our pricing utilized in the purchase price allocation as of the acquisition date was based on models which incorporate, among other things, market prices based on New York Mercantile Exchange ("NYMEX") futures. The ceiling test requires companies using the full cost accounting method to price period ending proved reserves using the simple average spot price for the trailing twelve month period, which may not be indicative of actual market values. The ceiling test calculation and impairment evaluation are based upon estimates of proved reserves. There are numerous uncertainties inherent in estimating quantities of proved reserves, in projecting the future rates of production and in the timing of development activities. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, testing and production subsequent to the date of the estimate may justify revision of such estimate. Accordingly, reserve estimates are often different from the quantities of oil, natural gas and natural gas liquids that are ultimately recovered.

Insurance Subsidiary Financial Information

The Company's insurance subsidiaries file financial statements with state insurance regulatory authorities and the National Association of Insurance Commissioners ("NAIC") that are prepared in accordance with Statutory Accounting Principles ("SAP") prescribed or permitted by such authorities, which may vary materially from US GAAP. Prescribed SAP includes the Accounting Practices and Procedures Manual of the NAIC as well as state laws, regulations and administrative rules. Permitted SAP encompasses all accounting practices not so prescribed. The principal differences between statutory financial statements and financial statements prepared in accordance with US GAAP are that statutory financial statements do not reflect deferred acquisition costs ("DAC") and value of business acquired ("VOBA"), some bond portfolios may be carried at amortized cost, assets and liabilities are presented net of reinsurance, contractholder liabilities are generally valued using more conservative assumptions and certain assets are non-admitted. Accordingly, statutory operating results and statutory capital and surplus may differ substantially from amounts reported in the US GAAP basis financial statements for comparable items.
On November 1, 2013, Fidelity and Guaranty Life Insurance Company ("FGL Insurance") re-domesticated from Maryland to Iowa. After re-domestication, FGL Insurance elected to apply Iowa-prescribed accounting practices that permit Iowa-domiciled insurers to report equity call options used to economically hedge fixed indexed annuity ("FIA") index credits at amortized cost for statutory accounting purposes and to calculate FIA statutory reserves such that index credit returns will be included in the reserve only after crediting to the annuity contract. This resulted in a

$11.5 increase to statutory capital and surplus at December 31, 2013. Also, the Iowa Insurance Division granted FGL Insurance a permitted statutory accounting practice to reclassify its negative unassigned surplus balance of $805.8 (unaudited) to additional paid in capital as of April 6, 2011, the date the Company acquired FGL Insurance, which will have the effect of setting FGL Insurance's statutory unassigned surplus to zero as of this date. The

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prescribed and permitted statutory accounting practice has no impact on the Company's consolidated financial statements which are prepared in accordance with US GAAP.
As of June 30, 2014, Fidelity and Guaranty Life Insurance Company of New York ("FGL NY Insurance") did not follow any prescribed or permitted statutory accounting practices that differ from the NAIC's statutory accounting practices. However, FGL Insurance's statutory carrying value of Raven Reinsurance Company ("Raven Re") reflects the effect of permitted practices Raven Re received from Vermont that allows Raven Re to admit the outstanding amount of a letter of credit facility as an asset. Raven Re is also permitted to follow Iowa prescribed practice statutory accounting for its statutory reserves on reinsurance assumed from FGL Insurance. Without such permitted statutory accounting practices Raven Re's statutory capital and surplus would be negative and its risk-based capital would fall below the minimum regulatory requirements.

Recent Accounting Pronouncements

Offsetting Assets and Liabilities

In December 2011, the Financial Accounting Standards Board ("FASB") issued amended disclosure requirements for offsetting financial assets and financial liabilities to allow investors to better compare financial statements prepared under US GAAP with financial statements prepared under International Financial Reporting Standards. The new standards are effective for the Company beginning in the first quarter of its fiscal year ending September 30, 2014. ASU 2011-11 was adopted by the Company effective October 1, 2013. The Company does not offset any of its derivative transactions, including bifurcated embedded derivatives, in its statement of financial position. Through FGL, the Company only enters into purchased equity options and long futures contracts. The Company has not entered into any repurchase and reverse repurchase agreements or securities borrowing and lending transactions. Accordingly, no additional disclosures are required.

Investments in Qualified Affordable Housing Projects

In January 2014, the FASB issued amended guidance which allows investors in Low Income Housing Tax Credit ("LIHTC") programs that meet specified conditions to present the net tax benefits (net of the amortization of the cost of the investment) within income tax expense. The cost of the investments that meet the specified conditions will be amortized in proportion to (and over the same period as) the total expected tax benefits, including the tax credits and other tax benefits, as they are realized on the tax return. The guidance is required to be applied retrospectively, if investors elect the proportional amortization method. However, if investors have existing LIHTC investments accounted for under the effective-yield method at adoption, they may continue to apply that method for those existing investments. The new standards will become effective for the Company beginning in the first quarter of its fiscal year ending September 30, 2016. The Company is currently evaluating the impact of this new accounting guidance on its consolidated financial position and results of operations.

Joint and Several Liability Arrangements

In February 2013, the FASB issued ASU 2013-04, "Liabilities (Topic 405):Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date" ("ASU 2013-04"). ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, except for obligations addressed within existing guidance in US GAAP. The update is effective for fiscal years ending after December 15, 2014 and is required to be applied retrospectively to all prior periods presented for those obligations that existed upon adoption of ASU 2013-04. The Company is currently assessing the potential impact of ASU 2013-04.

Presentation of Unrecognized Tax Benefit

In July 2013, the FASB issued ASU 2013-11, "Income taxes (Topic 740): Presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists", which requires entities to present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, except to the extent the net operating loss carryforwards or tax credit carryforwards are not available to be used at the reporting date to settle additional income taxes, and the entity does not intend to use them for this purpose. The new accounting guidance is consistent with how the Company has

historically accounted for unrecognized tax benefits in its Consolidated Statements of Financial Position; therefore, the Company does not expect the adoption of this guidance to have a significant impact on its consolidated financial statements.

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Revenue from Contracts with Customers
In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)", which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU requires revenue recognition to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new revenue recognition model requires identifying the contract, identifying the performance obligations, determining the transaction price, allocating the transaction price to performance obligations and recognizing the revenue upon satisfaction of performance obligations. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. This ASU can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures. This ASU will become effective for the Company beginning in the first quarter of its fiscal year ending September 30, 2018. The Company has not selected a method for adoption, nor determined the potential effects on our consolidated financial statements.

(3) Acquisitions
Spectrum Brands' Acquisition of Stanley Black & Decker's Hardware and Home Improvement Business
On December 17, 2012, Spectrum Brands completed the cash acquisition (the "Hardware Acquisition") of the residential hardware and home improvement business (the “HHI Business”) from Stanley Black & Decker, Inc. (“Stanley Black & Decker”). A portion of the HHI Business, consisting of the purchase of certain assets of Tong Lung Metal Industry Co. Ltd., a Taiwan Corporation (“TLM Taiwan”), closed on April 8, 2013.
Compass (formerly the EXCO/HGI JV)
On February 14, 2013, EXCO Resources, Inc. (“EXCO”) and a subsidiary of HGI formed Compass to own and operate conventional oil and natural gas properties. EXCO contributed to Compass its conventional assets in and above the Canyon Sand formation in the Permian Basin in West Texas as well as in the Holly, Waskom, Danville and Vernon fields in East Texas and North Louisiana. EXCO and HGI own an economic interest in Compass of 25.5% and 74.4%, respectively.

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Supplemental Pro Forma Information

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

	June 30, 2013	
	Three months ended	Nine months ended
Revenues:		
Reported revenues	$1,409.2	$4,042.6
HHI adjustment	—	191.8
Compass adjustment	—	53.7
Pro forma revenues	$1,409.2	$4,288.1
Net income:		
Reported net income	$118.7	$136.3
HHI adjustment	—	4.9
Compass adjustment	—	(0.5)
Pro forma net income	$118.7	$140.7
Basic net income per common share attributable to controlling interest:		
Reported net income per common share	$0.45	$0.54
HHI adjustment	—	0.04
Compass adjustment	—	—
Pro forma net income per common share	$0.45	$0.58
Diluted net income per common share attributable to controlling interest:		
Reported diluted net income per common share	$0.25	$0.30
HHI adjustment	—	0.02
Compass adjustment	—	—
Pro forma diluted net income per common share	$0.25	$0.32

Liquid Fence

On January 2, 2014, Spectrum Brands completed the $35.8 acquisition of Liquid Fence, a producer of animal repellents. This acquisition was not considered to be significant.

The following table summarizes the consideration paid by Spectrum Brands for Liquid Fence:

	January 2, 2014
Cash paid to seller at close	$24.8
Promissory note due to seller	9.5
Contingent liability	1.5
Preliminary purchase price	$35.8

The promissory note will be paid in four semi-annual installments over 24 months from the close of the transaction. The results of Liquid Fence's operations since January 2, 2014 are included in the Company's Condensed Consolidated Statements of Operations.

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Preliminary Valuation of Assets and Liabilities

The assets acquired and liabilities assumed in the Liquid Fence acquisition have been measured at their fair values at January 2, 2014 as set forth below. The excess of the purchase price over the fair values of the net tangible assets and identifiable intangible assets was recorded as goodwill, which includes value associated with the assembled workforce including an experienced research team, and is expected to be deductible for income tax purposes. The preliminary fair values recorded were determined based upon a valuation and the estimates and assumptions used in such valuation are subject to change, which could be significant, within the measurement period (up to one year from the acquisition date). The primary areas of acquisition accounting that are not yet finalized relate to amounts for intangible assets, contingent liabilities and residual goodwill.

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

	Preliminary Valuation January 2, 2014
Cash	$—
Accounts receivable	1.2
Inventories	2.2
Property, plant and equipment, net	0.1
Intangible assets	26.9
Total assets acquired	30.4
Total liabilities assumed	1.6
Total identifiable net assets less goodwill	28.8
Goodwill	7.0
Total identifiable net assets	$35.8

Preliminary Pre-Acquisition Contingencies Assumed

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

Preliminary Valuation Adjustments

Spectrum Brands performed a preliminary valuation of the acquired trade names, proprietary technology assets, customer relationships and a contingent earn-out liability at January 2, 2014.

A summary of the significant key inputs is as follows:

- Spectrum Brands valued the technology assets related to formulas and processes, using the income approach, specifically the excess earnings method. Under this method, the asset value was determined by estimating the earnings attributable to the technology assets, adjusted for contributory asset charges. In estimating the fair value of the technology, net sales and associated earnings were forecasted and adjusted for a technical obsolescence factor to isolate the forecasted sales and earnings attributable to the acquired technology assets. The forecasted technology earnings were discounted to present value to arrive at the concluded fair value. Spectrum Brands anticipates using the technology asset over a useful life of 17 years which is generally determined by assessing the time period in which substantially all of the discounted cash flows are expected to be generated. The technology asset was valued at approximately $20.5 under this approach.
- Spectrum Brands valued an indefinite-lived trade name using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade name was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of Liquid Fence, related trademarks and trade names, other similar trademark licensing

and transaction agreements and the relative profitability

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and perceived contribution of the trademarks and trade names. Trade name and trademarks were valued at $5.1 under this approach.

- Spectrum Brands valued customer relationships using the distributor approach. Under this method, the asset value was determined by estimating the hypothetical earnings before interest and taxes ("EBIT") that a comparable distributor would earn, further adjusted for contributory asset charges. In determining the fair value of the customer relationships, the distributor approach values the intangible asset at the present value of the incremental after-tax cash flows. The customer relationships were valued at $1.3 under this approach and will be amortized over 15 years.
- Spectrum Brands valued a contingent liability related to additional payments that may be made to the selling company. This liability was calculated based on the probability weighted present value of expected payments. This contingent liability is based on the achievement of specific revenue milestones through both January 31, 2015 and January 31, 2016. The contingent liability was valued at $1.5 under this approach.

Frederick's of Hollywood

On May 30, 2014, HGI, through its wholly owned subsidiary HGI Funding, completed the acquisition of a 62.0% interest in FOH, a retailer of women's apparel and related products. This acquisition was not considered to be significant.

The following table summarizes the consideration paid for FOH by the Company:

	May 30, 2014
Fair value of previously held equity interest (Series B preferred stock)	$12.0
Series A preferred stock purchase	1.5
Preliminary purchase price	$13.5

Prior to the transaction, FOH was a publicly listed company and HGI Funding owned all of FOH's series B preferred stock. In May 2014, HGI Funding acquired part of FOH's Series A preferred stock for $1.5. At that point HGI Funding and certain of the FOH's other common and preferred shareholders (together, the "Consortium") beneficially owned 88.6% of FOH's common stock. Shares of FOH's shareholders who were not members of the Consortium were repurchased by FOH for $0.27 per share in cash, funded from additional debt incurred by FOH as part of the going-private transaction. Following the completion of the going-private transaction, FOH's common stock ceased being quoted on the Over-the-Counter Bulletin Board Quarterly Trade ("OTCQB"), and FOH became a privately-held Company owned by the Consortium. The acquisition was accomplished through FOHG, an entity controlled by the Consortium that was formed for the purpose of the transaction. In exchange for their respective holdings in FOH, members of the Consortium received membership units in FOHG proportionate to their prior beneficial interests in FOH. Upon completion of the exchange, FOH became a wholly owned subsidiary of FOHG. HGI Funding exchanged its FOH series A and series B preferred shares for an 62.0% equity interest in FOHG.

The results of FOH's operations since May 30, 2014 are included in HGI’s Condensed Consolidated Statements of Operations, and are included within the "Corporate and Other" category in HGI's segment presentation.

Preliminary Valuation of Assets and Liabilities

The assets acquired and liabilities assumed in the FOH acquisition have been measured at their fair values at May 30, 2014 as set forth below. The excess of the purchase price over the fair values of the net tangible assets and identifiable intangible assets was recorded as goodwill, which includes value associated with the assembled workforce including an experienced retail team, and is not expected to be deductible for income tax purposes. The preliminary fair values recorded were determined based upon a valuation and the estimates and assumptions used in such valuation are subject to change within the measurement period (up to one year from the acquisition date). Any such change could be significant. The primary areas of acquisition accounting that are not yet finalized relate to amounts for intangible assets and residual goodwill.

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

	Preliminary Valuation May 30, 2014	
Cash	$0.8	
Accounts receivable	0.7	
Inventories	12.4	
Property, plant and equipment, net	1.2	
Intangible assets	41.7	
Other Assets	2.8	
Total assets acquired	59.6	
Total liabilities assumed	81.7	
Total identifiable net assets	(22.1	)
Non-controlling interest	(8.3	)
Goodwill	43.9	
Total identifiable net assets	$13.5	

Preliminary Valuation Adjustments

The Company performed a preliminary valuation of the assets and liabilities of FOH at May 30, 2014. The significant adjustments as a result of the valuation and the bases for their determination are summarized as follows:

- The Company valued indefinite lived trade names and trademarks using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade name was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of the FOH Business, related trademarks and trade names, other similar trademark licensing and transaction agreements and the relative profitability and perceived contribution of the trademarks and trade names. Royalty rates used in the determination of the fair values of trade names and trademarks ranged from 0.25% - 8.00% of expected net sales related to the respective trade names and trademarks. The Company anticipates using the majority of the trade names and trademarks for an indefinite period as demonstrated by the sustained use of the trademark. In estimating the fair value of the trademarks and trade names, net sales for significant trade names and trademarks were estimated to grow at a residual growth rate of 3.0%. Income taxes were estimated at 39.3% and amounts were discounted using a rate of 16.0%. Trade name and trademarks were valued at $41.7 under this approach.
- An adjustment of $8.0 was recorded to deferred taxes for the preliminary fair value adjustments made in accounting for the purchase.
- The Company recorded a liability associated with unfavorable leases of $1.3 and an asset associated with favorable leases for $0.4 based on lease market rates at the time of the acquisition. Favorable and unfavorable lease assets and liabilities will be amortized over their expected lives which approximates the period of time that the favorable or unfavorable lease terms will be in effect.

CorAmerica

In May 2014, Five Island Asset Management, LLC ("FIAM"), a wholly-owned subsidiary of the Company, entered into an agreement to acquire a controlling interest in CorAmerica, a commercial real estate investment firm. As part of the transaction, FIAM has acquired a 17.0% member interest and the right to appoint 3 of 5 members of CorAmerica's Board of Directors. Pursuant to the terms of the agreement, and subject to certain repurchase covenants which would give the CorAmerica founders the right to repurchase their interests, FIAM is required to acquire an additional 34.0% in May 2015. At the time of the agreement, the Company concluded that FIAM has the ability to control the operations of CorAmerica for its own benefit, and to consolidate CorAmerica's results of operations and financial position.

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(4) Investments

The Company's consolidated investments are summarized as follows:

	June 30, 2014						
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	Carrying Value
Fixed-maturity securities, available-for sale						
Asset-backed securities	$1,731.1	$16.1	$(9.5	)	$1,737.7	$1,737.7
Commercial mortgage-backed securities	585.0	26.3	(1.1	)	610.2	610.2
Corporates	9,765.9	568.5	(36.6	)	10,297.8	10,297.8
Hybrids	442.0	39.8	(0.2	)	481.6	481.6
Municipals	1,151.0	111.9	(7.2	)	1,255.7	1,255.7
Agency residential mortgage-backed securities	96.1	3.4	—		99.5	99.5
Non-agency residential mortgage-backed securities	1,738.6	143.3	(7.8	)	1,874.1	1,874.1
U.S. Government	404.6	7.2	(1.3	)	410.5	410.5
Total fixed maturities	15,914.3	916.5	(63.7	)	16,767.1	16,767.1
Equity securities						
Available-for-sale	644.8	23.5	(4.9	)	663.4	663.4
Held for trading	121.9	6.1	(30.7	)	97.3	97.3
Total equity securities	766.7	29.6	(35.6	)	760.7	760.7
Derivatives	165.1	160.6	(1.0	)	324.7	324.7
Asset-based loans	724.3	—	—		724.3	724.3
Other invested assets	174.2	0.1	—		174.3	174.3
Total investments	$17,744.6	$1,106.8	$(100.3	)	$18,751.1	$18,751.1

	September 30, 2013					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value	Carrying Value
Fixed-maturity securities, available-for-sale						
Asset-backed securities	$1,505.7	$22.6	$(5.2	)	$1,523.1	$1,523.1
Commercial mortgage-backed securities	431.3	24.7	(1.6	)	454.4	454.4
Corporates	9,314.7	288.7	(185.1	)	9,418.3	9,418.3
Hybrids	412.6	19.5	(3.3	)	428.8	428.8
Municipals	998.8	49.0	(40.8	)	1,007.0	1,007.0
Agency residential mortgage-backed securities	96.5	2.4	(0.3	)	98.6	98.6
Non-agency residential mortgage-backed securities	1,304.0	77.4	(13.4	)	1,368.0	1,368.0
U.S. Government	998.5	7.2	(3.9	)	1,001.8	1,001.8
Total fixed-maturity securities	15,062.1	491.5	(253.6	)	15,300.0	15,300.0
Equity securities						
Available-for-sale	274.6	6.7	(10.3	)	271.0	271.0
Held for trading	120.1	0.6	(39.2	)	81.5	81.5
Total equity securities	394.7	7.3	(49.5	)	352.5	352.5
Derivatives	141.7	88.5	(8.4	)	221.8	221.8
Asset-based loans	560.4	—	—		560.4	560.4

Other invested assets	31.2	—	—	31.2	31.2
Total investments	$16,190.1	$587.3	$(311.5)	$16,465.9	$16,465.9

Included in accumulated other comprehensive income ("AOCI") were cumulative unrealized gains of $0.9 and unrealized losses of $1.9 related to the non-credit portion of other-than-temporary impairments on non-agency residential mortgage-backed securities at June 30, 2014 and September 30, 2013. The non-agency residential

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mortgage-backed securities unrealized gains and losses represent the difference between amortized cost and fair value on securities that were previously impaired. There have been no impairments or write downs on any of the non-agency residential mortgage-backed securities purchased in 2014.

Securities held on deposit with various state regulatory authorities had a fair value of $14,795.6 and $19.4 at June 30, 2014 and September 30, 2013, respectively. The increase in securities held on deposits is due to the FGL Insurance re-domestication from Maryland to Iowa. Under Iowa regulations, insurance companies are required to hold securities on deposit in an amount no less than the company's legal reserve as prescribed by Iowa regulations.

In accordance with FGL Insurance's Federal Home Loan Bank of Atlanta (“FHLB”) agreements, the investments supporting the funding agreement liabilities are pledged as collateral to secure the FHLB funding agreement liabilities. The collateral investments had a fair value of $593.6 and $604.9 at June 30, 2014 and September 30, 2013, respectively.

Maturities of Fixed-maturity Securities

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

	June 30, 2014	
	Amortized Cost	Fair Value
Corporates, Non-structured Hybrids, Municipal and U.S. Government securities:		
Due in one year or less	$350.2	$353.3
Due after one year through five years	2,297.9	2,368.3
Due after five years through ten years	3,290.4	3,439.3
Due after ten years	5,748.8	6,204.0
Subtotal	11,687.3	12,364.9
Other securities which provide for periodic payments:		
Asset-backed securities	1,731.1	1,737.7
Commercial-mortgage-backed securities	585.0	610.2
Structured hybrids	76.2	80.7
Agency residential mortgage-backed securities	96.1	99.5
Non-agency residential mortgage-backed securities	1,738.6	1,874.1
Total fixed maturity available-for-sale securities	$15,914.3	$16,767.1

Securities in an Unrealized Loss Position

FGL’s available-for-sale securities with unrealized losses are reviewed by FGL for potential other-than-temporary impairments. In evaluating whether a decline in value is other-than-temporary, FGL considers several factors including, but not limited to, the following: (1) the extent and the duration of the decline; (2) the reasons for the decline in value (credit event, currency or interest-rate related, including general credit spread widening); and (3) the financial condition of and near-term prospects of the issuer. FGL also considers the ability and intent to hold the investment for a period of time to allow for a recovery of value.

FGL analyzes its ability to recover the amortized cost by comparing the net present value of cash flows expected to be collected with the amortized cost of the security. For mortgage-backed and asset-backed securities, cash flow estimates consider the payment terms of the underlying assets backing a particular security, including interest rate and prepayment assumptions, based on data from widely accepted third-party data sources or internal estimates. In addition to interest rate and prepayment assumptions, cash flow estimates also include other assumptions regarding the underlying collateral including default rates and recoveries, which vary based on the asset type and geographic location, as well as the vintage year of the security. For structured securities, the payment priority within the tranche structure is also considered. For all other debt securities, cash flow estimates are driven by assumptions regarding

probability of default and estimates regarding timing and amount of recoveries associated with a default. If the net present value is less than the amortized cost of the investment, an other-than-temporary impairment is recognized. FGL has concluded that the fair values of the securities presented in the table below were not other-than-temporarily impaired as of June 30, 2014.

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

	June 30, 2014					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	$454.0	$(3.8)	$306.2	$(5.7)	$760.2	$(9.5)
Commercial-mortgage-backed securities	52.8	(0.1)	0.2	(1.0)	53.0	(1.1)
Corporates	446.1	(8.0)	1,009.2	(28.6)	1,455.3	(36.6)
Equities	46.0	(0.2)	80.6	(4.7)	126.6	(4.9)
Hybrids	—	—	12.7	(0.2)	12.7	(0.2)
Municipals	15.9	—	213.6	(7.2)	229.5	(7.2)
Agency residential mortgage-backed securities	5.5	—	0.7	—	6.2	—
Non-agency residential mortgage-backed securities	177.2	(4.1)	139.7	(3.7)	316.9	(7.8)
U.S. Government	—	—	81.7	(1.3)	81.7	(1.3)
Total available-for-sale securities	$1,197.5	$(16.2)	$1,844.6	$(52.4)	$3,042.1	$(68.6)
Total number of available-for-sale securities in an unrealized loss position		175		250		425

	September 30, 2013					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	$329.3	$(4.5)	$81.5	$(0.7)	$410.8	$(5.2)
Commercial mortgage-backed securities	26.6	(0.5)	4.9	(1.1)	31.5	(1.6)
Corporates	3,457.2	(175.0)	186.0	(10.1)	3,643.2	(185.1)
Equities	118.6	(9.1)	32.2	(1.2)	150.8	(10.3)
Hybrids	52.0	(3.3)	—	—	52.0	(3.3)
Municipals	333.3	(27.3)	144.4	(13.5)	477.7	(40.8)
Agency residential mortgage-backed securities	9.8	(0.1)	1.1	(0.2)	10.9	(0.3)
Non-agency residential mortgage-backed securities	325.2	(12.2)	69.9	(1.2)	395.1	(13.4)
U.S. Government	753.9	(3.9)	—	—	753.9	(3.9)
	$5,405.9	$(235.9)	$520.0	$(28.0)	$5,925.9	$(263.9)

Total available-for-sale securities			
Total number of available-for-sale securities in an unrealized loss position	588	78	666

At June 30, 2014 and September 30, 2013, securities in an unrealized loss position were primarily concentrated in investment grade corporate debt instruments. Agency residential mortgage-backed securities had positions with an unrealized loss less than $0.1 as of June 30, 2014.

At June 30, 2014 and September 30, 2013, securities with a fair value of $0.2 and $60.9, respectively, were depressed greater than 20% of amortized cost (excluding U.S. Government and U.S. Government sponsored agency securities), which represented less than 1% of the carrying values of all investments.

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Credit Loss Portion of Other-than-temporary Impairments

The following table provides a reconciliation of the beginning and ending balances of the credit loss portion of other-than-temporary impairments on fixed maturity securities held by FGL for the three and nine months ended June 30, 2014 and June 30, 2013, for which a portion of the other-than-temporary impairment was recognized in AOCI:

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Beginning balance	$2.7	$2.7	$2.7	$2.7
Increases attributable to credit losses on securities:				
Other-than-temporary impairment was previously recognized	—	—	—	—
Other-than-temporary impairment was not previously recognized	—	—	—	—
Ending balance	$2.7	$2.7	$2.7	$2.7

For the three and nine months ended June 30, 2014, FGL recognized $0.6 of credit impairment losses in operations, related to fixed maturity securities and low income housing tax credit securities with an amortized cost of $1.3 and a fair value of $0.7 at June 30, 2014. For the three and nine months ended June 30, 2013, FGL recognized impairment losses in operations totaling $0.7 and $1.6, respectively, including credit impairments of $0.5 and $0.8, respectively and change-of-intent impairments of $0.2 and $0.9, respectively, related to fixed maturity securities with an amortized cost of $4.1 and a fair value of $2.4 at June 30, 2013.

Asset-based Loans

Salus' portfolio of asset-based loans receivable, included in "Asset-based loans" in the Condensed Consolidated Balance Sheets as of June 30, 2014 and September 30, 2013, consisted of the following:

	June 30, 2014	September 30, 2013
Asset-based loans, by major industry:		
Apparel	$169.2	$252.9
Jewelry	99.0	125.8
Sporting Goods	13.0	25.1
Manufacturing	60.2	34.3
Transportation	45.9	85.7
Electronics	250.0	—
Other	93.7	41.8
Total asset-based loans	731.0	565.6
Less: Allowance for credit losses	6.7	5.2
Total asset-based loans, net	$724.3	$560.4

Salus establishes its allowance for credit losses through a provision for credit losses based on its evaluation of the credit quality of its loan portfolio. The following table presents the activity in its allowance for credit losses for the three and nine months ended June 30, 2014 and June 30, 2013:

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Allowance for credit losses:				
Balance at beginning of period	$7.0	$2.8	$5.2	$1.4
Provision for credit losses	(0.3)	0.3	1.5	1.7
Balance at end of period	$6.7	$3.1	$6.7	$3.1

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Credit Quality Indicators

Salus monitors credit quality as indicated by various factors and utilizes such information in its evaluation of the adequacy of the allowance for credit losses. As of June 30, 2014 and September 30, 2013, Salus had no outstanding loans that either were non-performing, in a non-accrual status, or had been subject to a troubled-debt restructuring. As of June 30, 2014 and September 30, 2013, there were no outstanding loans that had been individually considered impaired, as all loans were in current payment status.

	Internal Risk Rating				
	Pass	Special Mention	Substandard	Doubtful	Total
June 30, 2014	$176.5	$302.1	$252.4	$—	$731.0
September 30, 2013	$306.9	$36.7	$222.0	$—	$565.6

Net Investment Income

The major sources of “Net investment income” on the accompanying Condensed Consolidated Statements of Operations were as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Fixed maturity available-for-sale securities	$196.6	$178.0	$581.9	$506.4
Equity available-for-sale securities	7.1	3.9	16.7	11.5
Policy loans	0.2	0.1	0.5	0.6
Invested cash and short-term investments	0.1	0.2	0.2	1.4
Asset-based loans	12.2	8.2	30.7	25.8
Other investments	1.5	1.4	2.8	2.3
Gross investment income	217.7	191.8	632.8	548.0
External investment expense	(6.8)	(3.6)	(14.3)	(10.5)
Net investment income	$210.9	$188.2	$618.5	$537.5

Net investment gains

“Net investment gains” reported on the accompanying Condensed Consolidated Statements of Operations were as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Net realized gains before other-than-temporary impairments	$75.0	$34.7	$92.7	$280.2
Gross other-than-temporary impairments	(0.6)	(0.7)	(0.6)	(1.6)
Net realized gains on fixed maturity available-for-sale securities	74.4	34.0	92.1	278.6
Realized gains on equity securities	3.0	4.5	13.8	6.4
Net realized gains on securities	77.4	38.5	105.9	285.0
Realized gains on certain derivative instruments	62.7	54.0	173.3	99.3
Unrealized gains (losses) on certain derivative instruments	38.9	(34.0)	78.2	27.3
Change in fair value of other embedded derivatives	0.3	—	0.3	—
Change in fair value of derivatives	101.9	20.0	251.8	126.6
Realized gains (losses) on other invested assets	5.3	(0.2)	9.7	(0.1)
Net investment gains	$184.6	$58.3	$367.4	$411.5

For the three and nine months ended June 30, 2014, principal repayments, calls, tenders, and proceeds from the sale of fixed maturity available-for-sale securities totaled $1,724.6 and $4,352.5, respectively, gross gains on such sales

totaled $74.6 and $96.8, respectively and gross losses totaled $1.7 and $4.2, respectively. The proceeds from the sale of fixed maturity available-for sale securities exclude maturities and repayments for the three and nine months ended June 30, 2014.

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For the three and nine months ended June 30, 2013, principal repayments, calls, tenders, and proceeds from the sale of fixed maturity available-for-sale securities totaled $836.0 and $5,741.6, respectively, gross gains on such sales totaled $35.0 and $284.0, respectively and gross losses totaled $0.5 and $1.0, respectively. The proceeds from the sale of fixed maturity available-for sale securities exclude maturities and repayments for the three and nine months ended June 30, 2013.

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

	Nine months ended June 30,	
	2014	2013
Proceeds from investments sold, matured or repaid:		
Available-for-sale	$4,402.1	$7,052.1
Trading (acquired for holding)	54.9	91.8
Derivatives and other	297.5	252.4
	$4,754.5	$7,396.3
Cost of investments acquired:		
Available-for-sale	$(5,594.5)	$(7,148.7)
Trading (acquired for holding)	(67.8)	(10.2)
Derivatives and other	(267.4)	(112.5)
	$(5,929.7)	$(7,271.4)

Concentrations of Financial Instruments

As of June 30, 2014 and September 30, 2013, the Company’s most significant investment in one industry, excluding U.S. Government securities, was FGL’s investment securities in the banking industry with a fair value of $2,175.4 or 11.6% and $1,892.1, or 11.5%, of the Company's invested assets portfolio, respectively. FGL’s holdings in this industry includes investments in 84 different issuers with the top ten investments accounting for 40.0% of the total holdings in this industry. As of June 30, 2014 and September 30, 2013, the Company had investments in 2 and 19 issuers that exceeded 10% of the Company's stockholders’ equity with a fair value of $439.1 and $1,983.7, or 2.3% and 12.0% of the invested assets portfolio, respectively. Additionally, the Company’s largest concentration in any single issuer as of June 30, 2014 and September 30, 2013, had a fair value of $250.0 and $150.7, or 1.3% and 0.9% of the Company's invested assets portfolio, respectively.

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(5) Derivative Financial Instruments

The fair value of outstanding derivative contracts recorded in the accompanying Condensed Consolidated Balance Sheets were as follows:

Asset Derivatives	Classification	June 30, 2014	September 30, 2013
Derivatives designated as hedging instruments:			
Commodity swap and option agreements	Receivables, net	$1.3	$0.4
Foreign exchange forward agreements	Receivables, net	0.7	1.7
Foreign exchange contracts	Other assets	0.1	—
Total asset derivatives designated as hedging instruments		2.1	2.1
Derivatives not designated as hedging instruments:			
Commodity contracts	Receivables, net	0.1	3.7
Call options	Derivatives	324.6	221.8
Futures contracts	Derivatives	0.1	—
Other embedded derivatives	Other invested assets	11.6	—
Foreign exchange contracts	Receivables, net	0.1	0.1
Total asset derivatives		$338.6	$227.7

Liability Derivatives	Classification	June 30, 2014	September 30, 2013
Derivatives designated as hedging instruments:			
Interest rate contracts	Accounts payable and other current liabilities	$1.8	$—
Interest rate contracts	Other liabilities	0.1	—
Commodity contracts	Accounts payable and other current liabilities	—	0.5
Foreign exchange forward agreements	Accounts payable and other current liabilities	5.0	4.6
Foreign exchange contracts	Other liabilities	0.3	0.1
Total liability derivatives designated as hedging instruments		7.2	5.2
Derivatives not designated as hedging instruments:			
Commodity contracts	Other liabilities	4.3	1.9
FIA embedded derivative	Contractholder funds	1,864.5	1,544.4
Futures contracts	Other liabilities	—	1.0
Foreign exchange forward contracts	Accounts payable and other current liabilities	0.3	5.3
Equity conversion feature of preferred stock	Equity conversion feature of preferred stock	—	330.8
Total liability derivatives		$1,876.3	$1,888.6

Changes in AOCI from Derivative Instruments

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

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The following table summarizes the pretax impact of derivative instruments designated as cash flow hedges on the accompanying Condensed Consolidated Statements of Operations, and within AOCI, for the three and nine months ended June 30, 2014 and June 30, 2013:

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)		Amount of Gain (Loss) Reclassified from AOCI into Income (Effective Portion)		Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)		Classification
Three months ended	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	
Commodity contracts	$1.3	$(1.0)	$0.1	$(0.3)	$—	$—	Consumer products cost of goods sold
Interest rate contracts	(1.9)	—	(0.4)	—	—	—	Interest expense
Foreign exchange contracts	—	0.2	—	0.4	—	—	Net consumer products sales
Foreign exchange contracts	(2.4)	4.0	(1.0)	0.5	—	—	Consumer products cost of goods sold
Total	$(3.0)	$3.2	$(1.3)	$0.6	$—	$—	
Nine months ended							
Commodity contracts	$1.4	$(3.4)	$0.1	$(0.2)	$—	$(0.1)	Consumer products cost of goods sold
Interest rate contracts	(1.9)	—	(0.4)	—	—	—	Interest expense
Foreign exchange contracts	0.2	0.8	0.1	0.7	—	—	Net consumer products sales
Foreign exchange contracts	(3.6)	7.2	(2.0)	(0.4)	—	—	Consumer products cost of goods sold
Total	$(3.9)	$4.6	$(2.2)	$0.1	$—	$(0.1)	

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Fair Value Contracts and Other
For derivative instruments that are used to economically hedge the fair value of Spectrum Brands' third party and intercompany foreign currency payments, commodity purchases and interest rate payments, and the equity conversion feature of the Company's redeemable preferred stock, the gain (loss) associated with the derivative contract is recognized in earnings in the period of change. FGL recognizes all derivative instruments as assets or liabilities in the Condensed Consolidated Balance Sheets at fair value, including derivative instruments embedded in Fixed Indexed Annuity ("FIA") contracts, and any changes in the fair value of the derivatives are recognized immediately in the Condensed Consolidated Statements of Operations. During the three and nine months ended June 30, 2014 and June 30, 2013, the Company recognized the following gains (losses) on these derivatives:

Derivatives Not Designated as Hedging Instruments	Gain (Loss) Recognized in Income on Derivatives				Classification
	Three months ended June 30,		Nine months ended June 30,		
	2014	2013	2014	2013	
Equity conversion feature of preferred stock	$38.0	$52.6	$(12.7)	$81.9	Gain (loss) from the change in the fair value of the equity conversion feature of preferred stock
Oil and natural gas commodity contracts	(2.2)	9.6	(12.4)	0.8	Other income (expense), net
Commodity contracts	0.1	(0.2)	—	(0.2)	Cost of consumer products and other goods sold
Foreign exchange contracts	(0.2)	0.5	0.4	(1.8)	Other income (expense), net
Call options	91.1	16.5	226.6	114.1	Net investment gains
Futures contracts	10.5	3.5	24.9	12.5	Net investment gains
Change in fair value of other embedded derivatives	0.3	—	0.3	—	Net investment gains
FIA embedded derivatives	145.8	53.7	320.1	(35.1)	Benefits and other changes in policy reserves
Total	$283.4	$136.2	$547.2	$172.2	

Additional Disclosures
Cash Flow Hedges
When it determines appropriate, Spectrum Brands uses interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the changes in fair value recorded in AOCI and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or receivables, respectively, and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. At June 30, 2014, Spectrum Brands had a series of U.S. dollar denominated interest rate swaps outstanding which effectively fix the interest on floating rate debt, exclusive of lender spreads, at 1.36% for a notional principal amount of $300.0 through April 2017. At September 30, 2013, Spectrum Brands did not have any interest rate swaps outstanding. The derivative net loss on these contracts recorded in AOCI by the Company at June 30, 2014 was $0.9 and noncontrolling interest of $0.6. At June 30, 2014, the portion of derivative net loss estimated to be reclassified from AOCI into earnings over the next twelve months is $0.8, net of tax and noncontrolling interest.
Spectrum Brands periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign currency denominated third party and intercompany sales or payments. These obligations generally require Spectrum Brands to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Australian Dollars, Brazilian Reals,

Mexican Pesos, Canadian Dollars or Japanese Yen. These foreign exchange contracts are cash flow hedges of fluctuating foreign exchange related to sales of product or raw material purchases. Until the sale or purchase is recognized, the fair value of the related hedge is recorded in AOCI and as a derivative hedge asset or liability, as applicable. At the time the sale or purchase is recognized, the fair value of the related hedge is reclassified as an adjustment to "Net consumer and other product sales" or purchase price variance in "Cost of consumer products and other goods sold." At June 30, 2014, Spectrum Brands had a series of foreign exchange derivative contracts outstanding through September 2014 with a contract value of $221.5. The derivative net loss on these contracts recorded in AOCI at June 30, 2014 was $2.1, net of tax benefit of $0.6 and noncontrolling interest

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of $1.5. At June 30, 2014, the portion of derivative net loss estimated to be reclassified from AOCI into earnings over the next twelve months is $2.0, net of tax and noncontrolling interest.
Spectrum Brands is exposed to risk from fluctuating prices for raw materials, specifically zinc and brass used in its manufacturing processes. Spectrum Brands hedges a portion of the risk associated with the purchase of these materials through the use of commodity swaps. The hedge contracts are designated as cash flow hedges with the fair value changes recorded in AOCI and as a hedge asset or liability, as applicable. The unrecognized changes in fair value of the hedge contracts are reclassified from AOCI into earnings when the hedged purchase of raw materials also affects earnings. The swaps effectively fix the floating price on a specified quantity of raw materials through a specified date. At June 30, 2014, Spectrum Brands had a series of zinc swap contracts outstanding through June 2015 for 5 tons with a contract value of $9.9. At June 30, 2014, Spectrum Brands had a series of brass swap contracts outstanding through June 2015 for one ton with a contract value of $3.9. The derivative net gain on these contracts recorded in AOCI at June 30, 2014 was $1.2, net of tax expense of $0.1. At June 30, 2014, the portion of derivative net gain estimated to be reclassified from AOCI into earnings over the next twelve months is $1.2, net of tax.
Fair Value Contracts
Spectrum Brands
Spectrum Brands periodically enters into forward and swap foreign exchange contracts to economically hedge the risk from third party and intercompany payments resulting from existing obligations. These obligations generally require Spectrum Brands to exchange foreign currencies for U.S. Dollars, Canadian Dollars, Euros or Australian Dollars. These foreign exchange contracts are fair value hedges of a related liability or asset recorded in the accompanying Condensed Consolidated Balance Sheets. The gain or loss on the derivative hedge contracts is recorded in earnings as an offset to the change in value of the related liability or asset at each period end. At June 30, 2014 and September 30, 2013, Spectrum Brands had $154.3 and $108.5, respectively, of notional value for such foreign exchange derivative contracts outstanding.

Spectrum Brands periodically enters into commodity swap contracts to economically hedge the risk from fluctuating prices for raw materials, specifically the pass-through of market prices for silver used in manufacturing purchased watch batteries. Spectrum Brands hedges a portion of the risk associated with these materials through the use of commodity swaps. The swap contracts are designated as economic hedges with the unrealized gain or loss recorded in earnings and as an asset or liability at each period end. The unrealized changes in fair value of the hedge contracts are adjusted through earnings when the realized gains or losses affect earnings upon settlement of the hedges. The swaps effectively fix the floating price on a specified quantity of silver through a specified date. At June 30, 2014, Spectrum Brands had a series of such swap contracts outstanding through September 2015 for 35 troy ounces with a contract value of $0.7. At September 30, 2013, Spectrum Brands had a series of such swap contracts outstanding through April 2014 for 45 troy ounces with a contract value of $1.0.
Oil and natural gas commodity contracts
Compass' primary objective in entering into derivative financial instruments is to manage its exposure to commodity price fluctuations, protect its returns on investments and achieve a more predictable cash flow in connection with its operations. These transactions limit exposure to declines in commodity prices, but also limit the benefits Compass would realize if commodity prices increase. When prices for oil and natural gas are volatile, changes in the fair value of the derivative financial instrument contracts underlying Compass' derivative financial instrument management activities may result in significant non-cash income or expense activity. Cash losses or gains only arise from payments made or received on monthly settlements of contracts or if Compass terminates a contract prior to its expiration. Compass does not designate its derivative financial instruments as hedging instruments for financial reporting purposes and, as a result, Compass recognizes the change in the respective instruments' fair value in earnings. Settlements in the normal course of maturities of derivative financial instrument contracts result in cash receipts from, or cash disbursements to, Compass' derivative contract counterparties. Changes in the fair value of Compass' derivative financial instrument contracts, which includes both cash settlements and non-cash changes in fair value, are included in income with a corresponding increase or decrease in the Condensed Consolidated Balance Sheets fair value amounts.

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Compass' natural gas and oil commodity contract derivative instruments are comprised of swap contracts. Swap contracts allow Compass to receive a fixed price and pay a floating market price to the counterparty for the hedged commodity.
The following table presents our proportionate share of Compass' volumes and fair value of the oil and natural gas derivative financial instruments as of June 30, 2014 (presented on a calendar-year basis) :

(in millions, except volumes and prices)	Volume Mmmbtus/Mbbls	Weighted average strike price per Mmbtu/Bbl	June 30, 2014
Natural gas:			
Swaps:			
Remainder of 2014	8,211	$4.15	$(2.5)
Total natural gas	8,211		$(2.5)
Oil:			
Swaps:			
Remainder of 2014	137	$91.87	$(1.5)
2015	186	94.98	(0.3)
Total oil	323		$(1.8)
Total oil and natural gas derivatives			$(4.3)

At September 30, 2013, Compass had outstanding derivative contracts to mitigate price volatility covering 16,018 Billion British Thermal Units ("Mmmbtus") of natural gas and 375 Thousand Barrels ("Mbbls") of oil. At June 30, 2014, the average forward NYMEX oil prices per Bbl for the remainder of 2014 and 2015 was $103.82 and $97.62, and the average forward NYMEX natural gas prices per Mmbtu for the remainder of 2014 was $4.47.
Compass derivative financial instruments covered approximately 68% and 74% of production volumes for the three and nine months ended June 30, 2014, respectively, and 77% and 70% of production volumes for the three months ended June 30, 2013 and from inception to period ended June 30, 2013, respectively
Other Embedded Derivatives
On June 16, 2014, FGL invested in a $35.0 fund-linked note issued by Nomura International Funding Pte. Ltd. The note provides for an additional payment at maturity based on the value of a hypothetical investment in AnchorPath Dedicated Return Fund (the "AnchorPath Fund") of $11.3, which is based on the actual return of the fund. At maturity of the fund-linked note, FGL will receive the $35.0 face value of the note plus the value of the hypothetical investment in the AnchorPath Fund. The additional payment at maturity is an available-for-sale embedded derivative reported in "Other embedded derivatives".
Credit Risk
Spectrum Brands is exposed to the risk of default by the counterparties with which Spectrum Brands transacts and generally does not require collateral or other security to support financial instruments subject to credit risk. As appropriate, Spectrum Brands monitors counterparty credit risk on an individual basis by periodically assessing each such counterparty's credit rating exposure. The maximum loss due to credit risk equals the fair value of the gross asset derivatives that are concentrated with certain domestic and foreign financial institution counterparties. Spectrum Brands considers these exposures when measuring its credit reserve on its derivative assets, which was insignificant at June 30, 2014 and September 30, 2013.
Spectrum Brands' standard contracts do not contain credit risk related contingent features whereby Spectrum Brands would be required to post additional cash collateral as a result of a credit event. However, Spectrum Brands is typically required to post collateral in the normal course of business to offset its liability positions. At June 30, 2014, Spectrum Brands did not post any cash collateral related to such liability positions. At September 30, 2013, Spectrum Brands had posted cash collateral of $0.5 related to such liability positions. In addition, at June 30, 2014 and September 30, 2013, Spectrum Brands had no posted standby letters of credit related to such liability positions. The cash collateral is included in "Receivables, net" within the accompanying Condensed Consolidated Balance Sheets.

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Compass places derivative financial instruments with the financial institutions that are lenders under a revolving credit agreement entered into by Compass (the "Compass Credit Agreement") that it believes have high quality credit ratings. To mitigate risk of loss due to default, Compass has entered into master netting agreements with its counterparties on its derivative financial instruments that allow it to offset its asset position with its liability position in the event of a default by the counterparty.

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

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

		June 30, 2014				September 30, 2013			
Counterparty	Credit Rating (Fitch/Moody's/S&P) (a)	Notional Amount	Fair Value	Collateral	Net Credit Risk	Notional Amount	Fair Value	Collateral	Net Credit Risk
Merrill Lynch	A/*/A	$2,150.9	$100.4	$57.2	$43.2	$2,037.8	$70.7	$—	$70.7
Deutsche Bank	A+/A2/A	2,639.8	114.9	76.5	38.4	1,620.4	51.7	23.0	28.7
Morgan Stanley	*/A3/A	2,116.6	98.1	75.6	22.5	2,264.1	75.7	49.0	26.7
Royal Bank of Scotland	A-/*/A-	—	—	—	—	364.3	20.3	—	20.3
Barclay's Bank	A/A2/A	256.0	11.2	—	11.2	120.8	3.4	—	3.4
		$7,163.3	$324.6	$209.3	$115.3	$6,407.4	$221.8	$72.0	$149.8

(a) Credit rating as of June 30, 2014 except for Royal Bank of Scotland which is as of September 30, 2013. An * represents credit ratings that were not available.

Collateral Agreements

FGL is required to maintain minimum ratings as a matter of routine practice under its ISDA agreements. Under some ISDA agreements, FGL has agreed to maintain certain financial strength ratings. A downgrade below these levels provides the counterparty under the agreement the right to terminate the open derivative contracts between the parties, at which time any amounts payable by FGL or the counterparty would be dependent on the market value of the underlying derivative contracts. FGL's current rating allows multiple counterparties the right to terminate ISDA agreements. No ISDA agreements have been terminated, although the counterparties have reserved the right to terminate the ISDA agreements at any time. In certain transactions, FGL and the counterparty have entered into a collateral support agreement requiring either party to post collateral when the net exposures exceed pre-determined thresholds. These thresholds vary by counterparty and credit rating. As of June 30, 2014 and September 30, 2013, counterparties posted $209.3 and $72.0 of collateral, of which $152.1 and $72.0, respectively, is included in "Cash and cash equivalents," with an associated payable for this collateral included in "Other liabilities" in the Condensed Consolidated Balance Sheets. The remaining $57.2 of non-cash collateral was held by a third-party custodian at June 30, 2014. Accordingly, the maximum amount of loss due to credit risk that FGL would incur if parties to the call options failed completely to perform according to the terms of the contracts was $115.3 and $149.8 at June 30, 2014 and September 30, 2013, respectively.

FGL held 2,016 and 1,693 futures contracts at June 30, 2014 and September 30, 2013, respectively. The fair value of the futures contracts represents the cumulative unsettled variation margin (open trade equity, net of cash settlements). FGL provides cash collateral to the counterparties for the initial and variation margin on the futures contracts which is included in "Cash and cash equivalents" in the Condensed Consolidated Balance Sheets. The amount of collateral held by the counterparties for such contracts was $8.7 and $5.9 at June 30, 2014 and September 30, 2013, respectively.

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(6) Fair Value of Financial Instruments

The Company's consolidated assets and liabilities measured at fair value are summarized according to the hierarchy previously described as follows:

	June 30, 2014			
	Level 1	Level 2	Level 3	Fair Value
Assets (a)				
Cash and cash equivalents (b)	$1,455.9	$—	$—	$1,455.9
Contingent purchase price reduction receivable	—	—	41.5	41.5
Derivatives:				
Foreign exchange forward agreements	—	0.9	—	0.9
Commodity swap and option agreements	—	1.4	—	1.4
Call options and futures contracts	—	324.7	—	324.7
Fixed maturity securities, available-for-sale:				
Asset-backed securities	—	1,731.8	5.9	1,737.7
Commercial mortgage-backed securities	—	526.3	83.9	610.2
Corporates	—	9,552.6	745.2	10,297.8
Hybrids	—	481.6	—	481.6
Municipals	—	1,219.2	36.5	1,255.7
Agency residential mortgage-backed securities	—	99.5	—	99.5
Non-agency residential mortgage-backed securities	—	1,874.1	—	1,874.1
U.S. Government	209.4	201.1	—	410.5
Equity securities:				
Available-for-sale	50.0	607.4	6.0	663.4
Trading	97.3	—	—	97.3
Other invested assets	—	2.1	11.6	13.7
Funds withheld receivable	—	158.5	—	158.5
Total financial assets	$1,812.6	$16,781.2	$930.6	$19,524.4
Liabilities (a)				
Derivatives:				
FIA embedded derivatives, included in contractholder funds	$—	$—	$1,864.5	$1,864.5
Front Street future policyholder benefit liability	—	—	154.9	154.9
Foreign exchange forward agreements	—	5.6	—	5.6
Commodity swap and option agreements	—	4.3	—	4.3
Interest rate contracts	—	1.9	—	1.9
Total financial liabilities	$—	$11.8	$2,019.4	$2,031.2

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	September 30, 2013			
	Level 1	Level 2	Level 3	Fair Value
Assets (a)				
Cash and cash equivalents (b)	$1,899.7	$—	$—	$1,899.7
Contingent purchase price reduction receivable	—	—	41.0	41.0
Derivatives:				
Foreign exchange forward agreements	—	1.8	—	1.8
Commodity swap and option agreements	—	4.1	—	4.1
Call options and futures contracts	—	221.8	—	221.8
Fixed maturity securities, available-for-sale:				
Asset-backed securities	—	1,518.1	5.0	1,523.1
Commercial mortgage-backed securities	—	448.7	5.7	454.4
Corporates	—	8,957.2	461.1	9,418.3
Hybrids	—	428.8		428.8
Municipals	—	1,007.0	—	1,007.0
Agency residential mortgage-backed securities	—	98.6	—	98.6
Non-agency residential mortgage-backed securities	—	1,368.0	—	1,368.0
U.S. Government	790.9	210.9	—	1,001.8
Equity securities:				
Available-for-sale	—	271.0	—	271.0
Trading	70.8	—	10.7	81.5
Total financial assets	$2,761.4	$14,536.0	$523.5	$17,820.9
Liabilities (a)				
Derivatives:				
FIA embedded derivatives, included in contractholder funds	$—	$—	$1,544.4	$1,544.4
Futures contracts	—	1.0	—	1.0
Foreign exchange forward agreements	—	10.0	—	10.0
Commodity swap and option agreements	—	2.4	—	2.4
Equity conversion feature of preferred stock	—	—	330.8	330.8
Total financial liabilities	$—	$13.4	$1,875.2	$1,888.6

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

(b) The fair values of cash equivalents and equity investments set forth above are generally based on quoted or observed market prices.

Valuation Methodologies

Fixed Maturity Securities, Equity Securities and Other Invested Assets

FGL measures the fair value of its securities based on assumptions used by market participants in pricing the security. The appropriate valuation methodology is selected based on the specific characteristics of the fixed maturity or equity security, and FGL will then consistently apply the valuation methodology to measure the security’s fair value. FGL’s fair value measurement is based on a market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the market approach include a third-party pricing service, independent broker quotations or pricing matrices. FGL uses observable and unobservable inputs in its valuation methodologies. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators and industry and economic events are monitored and further market data will be acquired when certain thresholds are met. For certain security types, additional inputs may be used, or some of the inputs

described above may not be applicable. The significant unobservable input used to estimate the fair value measurement of certain available-for-sale equity securities using the market-approach valuation technique, is yields for comparable securities. Increases (decreases) in such yields, respectively, would

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result in lower or higher fair value measurements. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. Management believes the broker quotes are prices at which trades could be executed based on historical trades executed at broker-quoted or slightly higher prices.

FGL did not adjust prices received from third parties as of June 30, 2014 and September 30, 2013. However, FGL does analyze the third-party valuation methodologies and its related inputs to perform assessments to determine the appropriate level within the fair value hierarchy.

Fair value of FGL's available-for-sale embedded derivative, included in "Other invested assets", is based on an unobservable input, the net asset value of the AnchorPath fund at the balance sheet date. The available-for-sale embedded derivative is similar to a call option on the net asset value of the AnchorPath fund with a strike price of zero since FGL will not be required to make any additional payments at maturity of the fund-linked note in order to receive the net asset value of the AnchorPath fund on the maturity date. Therefore, the Black Scholes model returns the net asset value of the AnchorPath fund as the fair value of the call option regardless of the values used for the other inputs to the option pricing model. The net asset value of the AnchorPath fund is provided by the fund manager at the end of each calendar month and represents the value an investor would receive if it withdrew its investment on the balance sheet date. Therefore, the key unobservable input used in the Black Scholes model is the value of the AnchorPath fund. As the value of the AnchorPath fund increases or decreases, the fair value of the embedded derivative will increase or decrease.

Funds Withheld Receivables and Future Policy Holder Benefits Reserve

Front Street Re (Delaware) Ltd. and its subsidiaries ("Front Street") elected to apply the Fair Value Option to account for its Funds Withheld Receivables and Future Policy Holder Benefits Reserve related to its assumed reinsurance. Front Street measures fair value of the Funds Withheld Receivables based on the fair values of the securities in the underlying funds withheld portfolio held in trust by the cedant. Front Street uses a discounted cash flows approach to measure the fair value of the Future Policy Holder Benefits Reserve. The cash flows associated with future policy benefits are generated using best estimate assumptions (plus a risk margin, where applicable) and are consistent with market prices, where available. Risk margins are typically applied to non-observable, non-hedgeable market inputs such as long term volatility, mortality, morbidity, lapse, etc.

Derivative Financial Instruments

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

Compass evaluates derivative assets and liabilities in accordance with master netting agreements with the derivative counterparties, but reports them on a gross basis on the Condensed Consolidated Balance Sheets. Net derivative asset values are determined primarily by quoted futures prices and utilization of the counterparties’ credit-adjusted risk-free rate curves and net derivative liabilities are determined by utilization of a credit-adjusted risk-free rate curve. The credit-adjusted risk-free rates of Compass’ counterparties are based on an independent market-quoted credit default swap rate curve for the counterparties’ debt plus the London Interbank Offered Rate (“LIBOR”) curve as of the end of the reporting period. Compass’ credit-adjusted risk-free rate is based on its cost of debt plus the LIBOR curve as of the end of the reporting period.

Compass’ oil derivatives are swap contracts for notional Bbls of oil at fixed NYMEX West Texas Intermediate (“WTI”) oil prices. The asset and liability values attributable to oil derivatives as of the end of the reporting period are based on (i) the contracted notional volumes, (ii) independent active NYMEX futures price quotes for WTI oil, and (iii) the applicable estimated credit-adjusted risk-free rate curve, as described above.

Compass’ natural gas derivatives are swap contracts for notional Mmbtus of natural gas at posted price indexes, including NYMEX Henry Hub (“HH”) swap contracts. The asset and liability values attributable to natural gas

derivatives as of the end of the reporting period are based on (i) the contracted notional volumes, (ii) independent

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active NYMEX futures price quotes for HH for natural gas swaps, and (iii) the applicable credit-adjusted risk-free rate curve, as described above.
Quantitative information regarding significant unobservable inputs used for recurring Level 3 fair value measurements of financial instruments carried at fair value as of June 30, 2014 and September 30, 2013 are as follows:

Assets	Valuation Technique	Unobservable Input(s)	Fair Value at June 30, 2014	September 30, 2013	Range (Weighted average) June 30, 2014	September 30, 2013
Contingent purchase price reduction receivable	Discounted cash flow	Probability of collection	$41.5	$41.0	88% - 96% (92%)	88% - 96% (92%)
		Expected term			7.5 months	9 months
		Discount rate			1%	1%
		Credit insurance risk premium			12%	11%
Asset-backed securities	Broker-quoted	Offered quotes	5.9	5.0	102%	103%
Commercial mortgage-backed securities	Broker-quoted	Offered quotes	83.9	5.7	104% - 121% (119%)	96%
Corporates	Broker-quoted	Offered quotes	653.5	404.5	62% - 121% (100%)	0% - 113% (90%)
Corporates	Matrix Pricing	Quoted prices	91.7	56.6	96% - 142% (102%)	90% - 131% (97%)
Municipal	Broker-quoted	Offered quotes	36.5	—	117%	—
Equity	Broker-quoted	Offered quotes	6.0	—	100%	—
	Option Pricing	Risk-adjusted rate	—	10.7		25.0%
		Risk-free discount factor				0.999
		Risk-adjusted discount factor				0.995
		Upward movement factor (Mu)				1.1
		Downward movement factor (Md)				0.9
		Probability of upward movement (Pu)				48.6%
		Probability of downward movement (Pd)				51.4%
Other invested assets	Black Scholes model	Net asset value of AnchorPath fund	11.6	—	100%	—
Total			$930.6	$523.5		

Liabilities						
FIA embedded derivatives, included in contractholder funds	Discounted cash flow	Market value of option	$1,864.5	$1,544.4	0% - 48% (4%)	0% - 38% (4%)
		SWAP rates			2% - 3% (2%)	2% - 3% (2%)
		Mortality multiplier			80%	80%
		Surrender rates			0.50% - 75% (7%)	0.50% - 75% (7%)
		Non-performance spread			0.25%	0.25%

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Liabilities	Valuation Technique	Unobservable Input(s)	Fair Value at June 30, 2014	September 30, 2013	Range (Weighted average) June 30, 2014	September 30, 2013
Front Street future policyholder benefit liability	Discounted cash flow	Non-performance risk spread	154.9	—	0.50% - 1.50%	—
		Risk margin to reflect uncertainty			0.5%	—
Equity conversion feature of preferred stock	Monte Carlo simulation / Option model	Annualized volatility of equity	—	330.8	—	42%
		Discount yield			—	11.0%
		Non-cash accretion rate			—	0%
		Calibration adjustment			—	0% - 1.0% (0.3%)
Total			$2,019.4	$1,875.2		

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

The significant unobservable inputs used in the fair value measurement of the equity investment are revenue multiple and probability of the transaction closing. Significant increases (decreases) in the revenue multiple and the probability of transaction closing would result in a higher (lower) fair value measurement. Generally, a change in any one unobservable input would not result in a change in any other unobservable input.

The significant unobservable inputs used in the fair value measurement of FIA embedded derivatives included in contractholder funds are market value of option, interest swap rates, mortality multiplier, surrender rates, and non-performance spread. The mortality multiplier at June 30, 2014 and September 30, 2013, is based on the 2000 and 1983 annuity tables, respectively, and assumes the contractholder population is 50% female and 50% male. Significant increases (decreases) in the market value of option in isolation would result in a higher (lower) fair value measurement. Significant increases (decreases) in interest swap rates, mortality multiplier, surrender rates, or non-performance spread in isolation would result in a lower (higher) fair value measurement. Generally, a change in any one unobservable input would not result in a change in any other unobservable input.

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

The significant unobservable inputs used in the fair value measurement of the Front Street future policyholder benefit liability are non-performance risk spread and risk spread to reflect uncertainty. Significant increases (decreases) in non-performance risk spread and risk margin to reflect uncertainty would result in a lower (higher) fair value

measurement.

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The following tables summarize changes to the Company's financial instruments carried at fair value and classified within Level 3 of the fair value hierarchy for the three and nine months ended June 30, 2014 and June 30, 2013. This summary excludes any impact of amortization of VOBA and DAC. The gains and losses below may include changes in fair value due in part to observable inputs that are a component of the valuation methodology.

Three months ended June 30, 2014

	Balance at Beginning of Period	Total Gains (Losses) Included in Earnings	Included in AOCI	Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets								
Contingent purchase price reduction receivable	$41.5	$—	$—	$—	$—	$—	$—	$41.5
Fixed maturity securities available-for-sale:								
Asset-backed securities	10.7	—	—	—	—	—	(4.8)	5.9
Commercial mortgage-backed securities	—	—	0.1	83.8	—	—	—	83.9
Corporates	657.0	—	14.4	88.9	(1.0)	—	(14.1)	745.2
Municipals	35.6	—	0.9	—	—	—	—	36.5
Equity securities - trading	10.8	1.2	—	1.5	—	(13.5)	—	—
Equity securities - available-for-sale	—	—	0.5	5.5	—	—	—	6.0
Other invested assets	—	0.3	—	11.3	—	—	—	11.6
Total assets at fair value	$755.6	$1.5	$15.9	$191.0	$(1.0)	$(13.5)	$(18.9)	$930.6

	Balance at Beginning of Period	Total (Gains) Losses Included in Earnings	Included in AOCI	Purchases	Sales	Settlements	Net transfer In (Out) of Level 3	Balance at End of Period
Liabilities								
FIA embedded derivatives, included in contractholder funds	$1,718.7	$145.8	$—	$—	$—	$—	$—	$1,864.5
Front Street future policyholder benefit liability	151.0	5.1	—	—	—	(1.2)	—	154.9
Equity conversion feature of	364.8	(38.0)	—	—	—	(326.8)	—	—

preferred stock								
Total liabilities at fair value	$2,234.5	$112.9	$—	$—	$—	$(328.0	) $—	$2,019.4

(a) This includes a $6.0 transfer to asset-backed securities from commercial mortgage-backed securities, the remaining transfers were from level 3 to level 2.

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	Nine months ended June 30, 2014							
	Balance at Beginning of Period	Total Gains (Losses) Included in Earnings	Included in AOCI	Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets								
Contingent purchase price reduction receivable	$41.0	$0.5	$—	$—	$—	$—	$—	$41.5
Fixed maturity securities available-for-sale:								
Asset-backed securities	5.0	—	(0.3)	5.0	—	—	(3.8)	5.9
Commercial mortgage-backed securities	5.7	—	0.4	83.8	—	—	(6.0)	83.9
Corporates	461.1	—	18.4	283.2	(1.0)	(2.4)	(14.1)	745.2
Municipals	—	—	1.5	35.0	—	—	—	36.5
Equity securities - trading	10.7	1.3	—	1.5	—	(13.5)	—	—
Equity securities - available-for-sale	—	—	0.5	5.5	—	—	—	6.0
Other invested assets	—	0.3	—	11.3	—	—	—	11.6
Total assets at fair value	$523.5	$2.1	$20.5	$425.3	$(1.0)	$(15.9)	$(23.9)	$930.6

	Balance at Beginning of Period	Total (Gains) Losses Included in Earnings	Included in AOCI	Purchases	Sales	Settlements	Net transfer In (Out) of Level 3	Balance at End of Period
Liabilities								
FIA embedded derivatives, included in contractholder funds	$1,544.4	$320.1	$—	$—	$—	$—	$—	$1,864.5
Front Street future policyholder benefit liability	—	8.1	—	150.6	—	(3.8)	—	154.9
Equity conversion feature of preferred stock	330.8	12.7	—	—	—	(343.5)	—	—
Total liabilities at fair value	$1,875.2	$340.9	$—	$150.6	$—	$(347.3)	$—	$2,019.4

(a)

This includes a $6.0 transfer to asset-backed securities from commercial mortgage-backed securities, the remaining transfers were from level 3 to level 2.

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	Three months ended June 30, 2013							
	Balance at Beginning of Period	Total Gains (Losses) Included in Earnings	Included in AOCI	Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets								
Contingent purchase price reduction receivable	$41.0	$—	$—	$—	$—	$—	$—	$41.0
Fixed maturity securities available-for-sale:								
Asset-backed securities	5.3	—	(0.1)	—	—	(0.1)	—	5.1
Commercial mortgage-backed securities	6.2	—	(0.3)	—	—	—	—	5.9
Corporates	356.5	—	(12.0)	106.2	—	(11.7)	—	439.0
Equity securities available-for-sale	10.0	—	1.6	0.1	—	—	—	11.7
Total assets at fair value	$419.0	$—	$(10.8)	$106.3	$—	$(11.8)	$—	$502.7

	Balance at Beginning of Period	Total (Gains) Losses Included in Earnings	Included in AOCI	Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
Liabilities								
FIA embedded derivatives, included in contractholder funds	$1,639.6	$(53.7)	$—	$—	$—	$—	$—	$1,585.9
Equity conversion feature of preferred stock	202.7	(52.6)	—	—	—	(2.8)	—	147.3
Total liabilities at fair value	$1,842.3	$(106.3)	$—	$—	$—	$(2.8)	$—	$1,733.2

(a) The net transfers in and out of Level 3 during the three months ended June 30, 2013 were exclusively to or from Level 2.

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	Nine months ended June 30, 2013							
	Balance at Beginning of Period	Total Gains (Losses) Included in Earnings	Included in AOCI	Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets								
Contingent purchase price reduction receivable	$41.0	$—	$—	$—	$—	$—	$—	$41.0
Fixed maturity securities available-for-sale:								
Asset-backed securities	15.9	—	(0.2)	—	—	(0.1)	(10.5)	5.1
Commercial mortgage-backed securities	5.0	—	(0.1)	1.0	—	—	—	5.9
Corporates	135.3	(0.3)	(10.8)	383.6	(9.6)	(25.4)	(33.8)	439.0
Hybrids	8.8	—	(0.1)	—	—	—	(8.7)	—
Equity securities available-for-sale	—	—	1.6	10.1	—	—	—	11.7
Total assets at fair value	$206.0	$(0.3)	$(9.6)	$394.7	$(9.6)	$(25.5)	$(53.0)	$502.7

	Balance at Beginning of Period	Total (Gains) Losses Included in Earnings	Included in AOCI	Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
Liabilities								
FIA embedded derivatives, included in contractholder funds	$1,550.8	$35.1	$—	$—	$—	$—	$—	$1,585.9
Equity conversion feature of preferred stock	232.0	(81.9)	—	—	—	(2.8)	—	147.3
Total liabilities at fair value	$1,782.8	$(46.8)	$—	$—	$—	$(2.8)	$—	$1,733.2

(a) The net transfers in and out of Level 3 during the nine months ended June 30, 2013 were exclusively to or from Level 2.

FGL reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the beginning fair value for the reporting period in which the changes occur. There were no transfers between Level 1 and Level 2 for the three and nine months ended June 30, 2014. FGL transferred $79.3 U.S. Government securities from Level 1 into Level 2 for the three and nine

months ended June 30, 2013 reflecting the level of market activity in these instruments.

Primary market issuance and secondary market activity for certain asset-backed, hybrid and corporate securities during the three and nine months ended June 30, 2014 and June 30, 2013 increased the market observable inputs used to establish fair values for similar securities. These factors, along with more consistent pricing from third-party sources, resulted in FGL concluding that there is sufficient trading activity in similar instruments to support classifying these securities as Level 2 as of June 30, 2014 and June 30, 2013. Accordingly, FGL's assessment resulted in net transfers out of Level 3 of $18.9 and $23.9 related to asset-backed securities and corporate securities during the three and nine months ended June 30, 2014 and of $0.0 and $53.0 related to asset-backed, corporate and hybrid securities during the three and nine months ended June 30, 2013, respectively.

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Non-Recurring Fair Value Measurements

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

Financial Assets and Liabilities Not Measured at Fair Value

The carrying amount, estimated fair value and the level of the fair value hierarchy of the Company’s financial instrument assets and liabilities which are not measured at fair value on the Consolidated Balance Sheets are summarized as follows:

	June 30, 2014				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets (a)					
Other invested assets	$—	$—	$160.6	$160.6	$160.6
Asset-based loans	—	—	724.3	724.3	724.3
Total financial assets	$—	$—	$884.9	$884.9	$884.9
Liabilities (a)					
Total debt (b)	$—	$5,526.1	$—	$5,526.1	$5,303.4
Investment contracts, included in contractholder funds	—	—	12,891.5	12,891.5	14,353.4
Total financial liabilities	$—	$5,526.1	$12,891.5	$18,417.6	$19,656.8

	September 30, 2013				
	Level 1	Level 2	Level 3	Estimated Fair Value	Carrying Amount
Assets (a)					
Other invested assets	$—	$—	$31.2	$31.2	$31.2
Asset-based loans	—	—	560.4	560.4	560.4
Total financial assets	$—	$—	$591.6	$591.6	$591.6
Liabilities (a)					
Total debt (b)	$—	$4,773.2	$—	$4,773.2	$4,896.1
Redeemable preferred stock, excluding equity conversion feature	—	—	377.1	377.1	329.4
Investment contracts, included in contractholder funds	—	—	12,378.6	12,378.6	13,703.8
Total financial liabilities	$—	$4,773.2	$12,755.7	$17,528.9	$18,929.3

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

(b) The fair values of debt set forth above are generally based on quoted or observed market prices.

Valuation Methodology

Investment contracts include deferred annuities, FIAs, indexed universal life ("IUL") and immediate annuities. The fair values of deferred annuity, FIAs, and IUL contracts are based on their cash surrender value (i.e. the cost FGL would incur to extinguish the liability) as these contracts are generally issued without an annuitization date. The fair value of immediate annuities contracts is derived by calculating a new fair value interest rate using the updated yield curve and treasury spreads as of the respective reporting date. At June 30, 2014 and September 30, 2013, this resulted in lower fair value reserves relative to the carrying value. FGL is not required to and has not estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the

definition of insurance contracts that are exceptions from financial instruments that require disclosure of fair value.

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The fair value of the Preferred Stock, excluding the equity conversion feature, is derived under the same model and using the same inputs and assumptions, as is used to determine the fair value of the equity conversion feature of said redeemable preferred stock, as is discussed in the disclosures pertaining to financial instruments measured at fair value above.
The fair value of the asset-based loans originated by Salus approximate their carrying value. Such loans carry a variable rate that are typically revolving in nature and are collateralized by the borrower's assets.

(7) Goodwill and Intangibles, including deferred acquisition costs and value of business acquired, net
A summary of the changes in the carrying amounts of goodwill and intangible assets, including FGL’s DAC and VOBA balances, are as follows:

		Intangible Assets				
	Goodwill	Indefinite Lived	Definite Lived	VOBA	DAC	Total
Balance at September 30, 2013	$1,476.7	$1,178.1	$985.1	$225.3	$340.6	$2,729.1
Acquisitions (Note 3)	65.2	46.8	22.0	—	—	68.8
Deferrals	—	—	—	—	172.5	172.5
Less: Components of amortization -						
Periodic amortization	—	—	(61.2)	(67.7)	(38.9)	(167.8)
Interest	—	—	—	11.0	10.1	21.1
Unlocking	—	—	—	21.8	3.4	25.2
Adjustment for unrealized investment (gains), net	—	—	—	(108.2)	(83.0)	(191.2)
Effect of translation	(2.8)	6.0	1.1	—	—	7.1
Balance at June 30, 2014	$1,539.1	$1,230.9	$947.0	$82.2	$404.7	$2,664.8

Intangible assets are recorded at cost or at fair value if acquired in a purchase business combination. Definite lived intangible assets include customer relationships, proprietary technology intangibles and certain trade names that are amortized using the straight-line method over their estimated useful lives of ranging from one to twenty years. Goodwill and indefinite lived trade name intangibles are not amortized and are tested for impairment at least annually at the Company’s August financial period end, or more frequently if an event or circumstance indicates that an impairment loss may have been incurred between annual impairment tests.
During the nine months ended June 30, 2014, Spectrum Brands recorded an adjustment of $3.5 to goodwill to finalize the purchase accounting for the acquisition of the HHI Business from Stanley Black & Decker. The adjustment related to changes in the valuation of working capital accounts and deferred taxes based on the final determination of fair value. These adjustments were not retrospectively applied to the opening balance sheet as the amounts were deemed immaterial.
During the nine month period ended June 30, 2014, the Company recorded additions to goodwill and intangible assets related to the acquisitions of Liquid Fence, FOH and CorAmerica. See Note 3, Acquisitions, for further detail.
Amortization of DAC and VOBA is based on the amount of gross margins or profits recognized, including investment gains and losses. The adjustment for unrealized net investment losses represents the amount of DAC and VOBA that would have been amortized if such unrealized gains and losses had been recognized. This is referred to as the “shadow adjustments” as the additional amortization is reflected in other comprehensive income rather than the statement of operations. As of June 30, 2014 and September 30, 2013, the VOBA balance included cumulative adjustments for net unrealized investment (gains) of $(189.7) and $(81.4), respectively, and the DAC balances included cumulative adjustments for net unrealized investment (gains) losses of $(64.4) and $18.6, respectively. Amortization of VOBA and DAC for the three months ended June 30, 2014 and June 30, 2013 was $10.8 and $37.3, and $9.4 and $27.4, respectively. Amortization of VOBA and DAC for the nine months ended June 30, 2014 and June 30, 2013 was $34.9 and $113.0, and $25.4 and $50.1, respectively.

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The above DAC balances include $29.8 and $26.2 of deferred sales inducements ("DSI"), net of shadow adjustments, as of June 30, 2014 and September 30, 2013, respectively.

Definite lived intangible assets are summarized as follows:

	June 30, 2014			September 30, 2013			
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net	Amortizable Life
Customer relationships	$889.6	$(196.3)	$693.3	$885.9	$(160.8)	$725.1	15 to 20 years
Trade names	171.4	(57.0)	114.4	171.6	(44.7)	126.9	1 to 12 years
Technology assets	192.2	(52.9)	139.3	172.1	(39.0)	133.1	4 to 17 years
	$1,253.2	$(306.2)	$947.0	$1,229.6	$(244.5)	$985.1	

Amortization expense for definite lived intangible assets is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Customer relationships	$11.7	$11.6	$35.0	$33.3
Trade names	4.1	4.3	12.3	12.2
Technology assets	4.7	4.4	13.9	12.0
	$20.5	$20.3	$61.2	$57.5

The Company estimates annual amortization expense of amortizable intangible assets for the next five fiscal years will approximate $77.5 per year.

The weighted average amortization period for VOBA is approximately 5.0 years. Estimated amortization expense for VOBA in future fiscal periods is as follows:

	Estimated Amortization Expense
Fiscal Year	VOBA
2014	$7.9
2015	42.1
2016	38.4
2017	31.7
2018	25.8
2019 and thereafter	126.0

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(8) Debt

The Company’s consolidated debt consists of the following:

	June 30, 2014			September 30, 2013		
	Amount	Rate		Amount	Rate	
HGI:						
7.875% Senior Secured Notes, due July 15, 2019	$604.4	7.9	%	$925.0	7.9	%
7.75% Senior Unsecured Notes, due January 15, 2022	550.0	7.8	%	—	—	%
Spectrum Brands:						
CAD Term Loan, due December 17, 2019	59.4	5.1	%	81.4	5.1	%
Term Loan, due September 4, 2017 (Tranche A)	818.1	3.0	%	850.0	3.0	%
Term Loan, due September 4, 2019 (Tranche C)	512.4	3.6	%	300.0	3.6	%
Term Loan, due December 17, 2019 (Tranche B)	—	—		513.3	4.6	%
Euro Term Loan, due September 4, 2019	305.5	3.8	%	—	—	
6.75% Senior Notes, due March 15, 2020	300.0	6.8	%	300.0	6.8	%
6.375% Senior Notes, due November 15, 2020	520.0	6.4	%	520.0	6.4	%
6.625% Senior Notes, due November 15, 2022	570.0	6.6	%	570.0	6.6	%
ABL Facility, expiring May 24, 2017	110.0	2.0	%	—	5.7	%
Other notes and obligations	52.1	8.3	%	28.5	8.5	%
Capitalized lease obligations	96.6	6.1	%	67.4	6.2	%
FGL						
6.375% Senior Notes, due April 1, 2021	300.0	6.4	%	300.0	6.4	%
Compass						
Compass Credit Agreement, due February 14, 2018	250.6	2.7	%	271.2	2.7	%
Salus						
Unaffiliated long-term debt of consolidated variable-interest entity	191.9	6.6	%	182.9	6.6	%
Secured borrowings under non-qualifying loan participations	100.0	11.0	%	—	—	
Total	5,341.0			4,909.7		
Original issuance (discounts) premiums on debt, net	(37.6)			(13.6)		
Total debt	5,303.4			4,896.1		
Less current maturities	121.5			102.9		
Non-current portion of debt	$5,181.9			$4,793.2		

HGI

In January 2014, the Company issued $200.0 aggregate principal amount of 7.75% senior unsecured notes due 2022 (the "7.75% Notes"). The 7.75% Notes were priced at 100% of par plus accrued interest from January 21, 2014. Interest on the 7.75% Notes is payable semi-annually, in January and July. In connection with the 7.75% Note offering, the Company recorded $5.6 of fees during the nine months ended June 30, 2014. These fees are classified as "Other assets" in the accompanying Condensed Consolidated Balance Sheets as of June 30, 2014, and are being amortized to interest expense utilizing the effective interest method over the term of the 7.75% Notes.

In May 2014, HGI exchanged $320.6 of its outstanding Senior Secured Notes for $350.0 aggregate principal amount of Additional 7.75% Notes. On May 30, 2014, participating holders received $1,091.71 principal amount of Additional 7.75% Notes for each $1,000 principal amount of Senior Secured Notes. As part of the exchange the Company also received modifications to the indenture governing the Senior Secured Notes, increasing the Company’s ability to make certain restricted payments, such as repurchases of the Company's common stock. Following

settlement, HGI has $604.4 in aggregate principal amount of the Senior Secured Notes outstanding and $550.0 in aggregate principal amount of 7.75% Notes due 2022 outstanding.

The Company has the option to redeem the 7.75% Notes prior to January 15, 2017 at a redemption price equal to 100% of the principal amount plus a make-whole premium and accrued and unpaid interest, if any, to the date of redemption. At any time on or after January 15, 2017, the Company may redeem some or all of the 7.75% Notes at certain fixed redemption prices expressed as percentages of the principal amount, plus accrued and unpaid

interest. At any time prior to January 15, 2017, the Company may redeem up to 35% of the original aggregate principal amount of the 7.75% Notes with net cash proceeds received by us from certain equity offerings at a price equal to 107.75% of the principal amount of the 7.75% Notes redeemed, plus accrued and unpaid interest, if any, to the date of redemption, provided that redemption occurs within 90 days of the closing date of such equity offering, and at least 65% of the aggregate principal amount of the 7.75% Notes remains outstanding immediately thereafter.
At June 30, 2014, the Company was in compliance with all covenants under the indentures governing the 7.875% Senior Secured Notes and the 7.75% Notes.

Spectrum Brands

Term Loan

In December 2013, Spectrum Brands amended the senior term loan facility (the "Term Loan"), issuing two tranches maturing September 4, 2019 which provide for borrowings in aggregate principal amounts of $215.0 and €225.0 (the "Euro Term Loan Debt"). The proceeds from the amendment were used to refinance a portion of the Term Loan (formerly Tranche B) which was scheduled to mature December 17, 2019 and had an aggregate amount outstanding of $513.3 prior to refinancing. The $215.0 additional U.S. dollar denominated portion was combined with the existing Tranche C maturing September 4, 2019. Spectrum Brands recorded accelerated amortization of portions of the unamortized discount and unamortized debt issuance costs related to the refinancing of the Term Loan totaling $9.2 as an adjustment to interest expense during the nine month period ended June 30, 2014.
The additional Tranche C and Euro Term Loan debt were issued at a 0.125% discount and recorded net of the discount incurred. Of this discount, $0.5 is reflected as an adjustment to the carrying value of principal, and is being amortized with a corresponding charge to interest expense over the remaining life of the debt, and the remainder of $0.1 is reflected as an increase to interest expense during the nine month period ended June 30, 2014. In connection with the refinancing of a portion of the Term Loan, Spectrum Brands recorded $0.2 and $7.2 of fees during the three and nine month periods ended June 30, 2014, respectively, of which $5.2 is classified as debt issuance costs within the accompanying Condensed Consolidated Balance Sheets and is being amortized as an adjustment to interest expense over the remaining life of the Term Loan, with the remainder of $2.1 reflected as an increase to interest expense during the nine month period ended June 30, 2014.

ABL Facility

In connection with the December 2013 amendment of the Term Loan, Spectrum Brands amended its asset based lending revolving credit facility (the “ABL Facility”) to obtain certain consents to the amendment of the senior credit agreement. In connection with the amendment, Spectrum Brands incurred fees and expenses that are included in the amounts recorded above related to the amendment of the Term Loan.
As a result of borrowings and payments under the ABL Facility, at June 30, 2014, Spectrum Brands had aggregate borrowing availability of approximately $193.8, net of lender reserves of $6.4 and outstanding letters of credit of $54.1.

Compass Credit Agreement

As of June 30, 2014, Compass had a borrowing base of $400.0 with $337.0 of outstanding indebtedness. Our proportionate share of the obligation was $250.6. The borrowing base is redetermined semi-annually, with Compass and the lenders having the right to request interim unscheduled redeterminations in certain circumstances.

Salus

Salus acts as co-lender under some of the asset-based loans that it originates, and such loans are structured to meet the definition of a "participating interest" as defined under ASC 860-10, Transfers and Servicing. For loans originated with co-lenders that have terms that result in such a co-lender not having a qualifying "participating interest", Salus recognizes the whole, undivided loan. Salus also reflects a secured borrowing owing to the co-lender representing their share in the undivided whole loan. As of June 30, 2014, Salus had $100.0 of such secured borrowings to co-lenders outstanding related to non-qualifying "participating interests".

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(9) Defined Benefit Plans

The components of consolidated net periodic benefit and deferred compensation benefit costs and contributions made are as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Service cost	$0.9	$0.9	$2.9	$2.6
Interest cost	2.6	2.5	8.6	7.8
Expected return on assets	(2.5)	(2.5)	(8.5)	(7.4)
Recognized net actuarial loss	0.3	0.5	1.1	1.6
Employee contributions	—	—	—	(0.1)
Net periodic benefit expense	$1.3	$1.4	$4.1	$4.5
Contributions made during period	$4.0	$1.3	$9.6	$3.2

(10) Reinsurance

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

FGL and Front Street Cayman also assume policy risks from other insurance companies.

The effect of reinsurance on premiums earned, benefits incurred and reserve changes for the three and nine months ended June 30, 2014 and June 30, 2013 were as follows:

	Three months ended June 30,				Nine months ended June 30,			
	2014		2013		2014		2013	
	Insurance Premiums	Benefits and Other Changes in Insurance Policy Reserves	Insurance Premiums	Benefits and Other Changes in Insurance Policy Reserves	Insurance Premiums	Benefits and Other Changes in Insurance Policy Reserves	Insurance Premiums	Benefits and Other Changes in Insurance Policy Reserves
Direct	$65.6	$324.0	$69.9	$150.9	$200.3	$876.8	$212.3	$579.8
Assumed	8.8	12.0	9.1	8.2	27.6	27.3	24.5	15.7
Ceded	(61.1)	(70.9)	(60.0)	(51.9)	(185.9)	(207.8)	(189.9)	(163.8)
Net	$13.3	$265.1	$19.0	$107.2	$42.0	$696.3	$46.9	$431.7

Amounts payable or recoverable for reinsurance on paid and unpaid claims are not subject to periodic or maximum limits. During the three and nine months ended June 30, 2014 and June 30, 2013, FGL did not write off any reinsurance balances. During the three and nine months ended June 30, 2014 and June 30, 2013, FGL did not commute any ceded reinsurance. Effective June 17, 2013, FGL rescinded the portion of the coinsurance agreement dated April 1, 2011 between FGL Insurance and Wilton Re which covers certain disability income riders. Wilton Re paid FGL Insurance a rescission settlement of $6.4 and recognized a net gain on the rescission of $1.9.

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

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

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Front Street

On December 31, 2012, FGL entered into a Reinsurance Agreement with Front Street Cayman, an indirect subsidiary of the Company. Pursuant to the Reinsurance Agreement, Front Street Cayman has reinsured approximately 10%, or approximately $1,400.0 of FGL's policy liabilities, on a funds withheld basis. In connection with the Reinsurance Agreement, Front Street Cayman, FGL and an indirect subsidiary of the Company, FIAM, entered into an investment management agreement, pursuant to which FIAM Capital Management, LLC ("Five Island") would manage the assets securing Front Street Cayman's reinsurance obligations under the Reinsurance Agreement, which assets are held by FGL in a segregated account. The assets in the segregated account are invested in accordance with FGL's existing guidelines.

On December 16, 2013, Front Street Cayman, closed a reinsurance treaty with Bankers Life Insurance Company. Under the terms of the treaty, Bankers Life Insurance Company ceded approximately $153.0 of its annuity business to Front Street Cayman, on a funds withheld basis. The agreement, which has been approved by the State of Florida Office of Insurance Regulation, is retroactive to November 30, 2013. Front Street Cayman will manage the assets supporting reserves in accordance with the internal investment policy of Bankers Life Insurance Company and applicable law.

(11) Stock Compensation

The Company recognized consolidated stock compensation expense of $19.7 and $22.7 during the three months ended June 30, 2014 and 2013, respectively and $67.1 and $44.9 during the nine months ended June 30, 2014 and 2013, respectively. Stock compensation expense is principally included in "Selling, acquisition, operating and general expenses" in the accompanying Condensed Consolidated Statements of Operations.

A summary of stock options outstanding as of June 30, 2014 and related activity during the nine months then ended, under HGI, Fidelity & Guaranty Life Holdings, Inc. ("FGH"), and FGL's respective incentive plans are as follows (share amounts in thousands):

	HGI			FGH		FGL		
Stock Option Awards	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
Stock options outstanding at September 30, 2013	3,954	$6.52	$2.55	335	$44.23	—	$—	$—
Granted	1,356	11.75	4.91	—	—	249	17.00	3.76
Exercised	(497)	4.96	1.77	(41)	41.23	—	—	—
Forfeited or expired	(70)	8.82	3.66	(3)	47.06	(4)	17.00	5.26
Stock options outstanding at June 30, 2014	4,743	8.15	3.29	291	44.62	245	17.00	3.73
Stock options vested and exercisable at June 30, 2014	1,429	7.46	2.96	132	42.33	—	—	—
Stock options outstanding and expected to vest	3,314	8.45	3.43	152	44.57	241	17.00	3.70

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A summary of restricted stock, restricted stock units and Performance Restricted Stock Units ("PRSUs") outstanding as of June 30, 2014 and related activity during the nine months then ended, under HGI, Spectrum Brands, FGH and FGL's respective incentive plans are as follows (share amounts in thousands):

	HGI		FGL	
Restricted Stock Awards	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Restricted stock outstanding at September 30, 2013	3,456	$7.72	—	$—
Granted	3,313	12.00	171	18.11
Vested	(1,126)	10.15	—	—
Forfeited	(62)	10.04	(5)	19.98
Restricted stock outstanding at June 30, 2014	5,581	9.74	166	18.06
Restricted stock outstanding and expected to vest	5,553	9.74	162	18.00

	HGI		Spectrum Brands		FGH	
Restricted Stock Units	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Restricted stock units outstanding at September 30, 2013	22	$4.61	1,118	$39.11	46	$49.60
Granted	7	11.84	442	69.21	—	—
Exercised / Released	(22)	4.61	(949)	39.65	(18)	49.53
Forfeited	—	—	—	—	(1)	49.45
Restricted stock units outstanding at June 30, 2014	7	11.84	611	60.04	27	49.55
Restricted stock units outstanding and expected to vest	7	11.84	611	60.04	25	49.55

	FGL	
Performance Restricted Stock Units	Units	Weighted Average Grant Date Fair Value
Performance restricted stock units outstanding at September 30, 2013	—	$—
Granted	541	17.37
Performance restricted stock units outstanding at June 30, 2014	541	17.37
Performance restricted stock units expected to vest	541	17.37

A summary of warrants outstanding as of June 30, 2014 and related activity during the nine months then ended, under HGI's incentive plan are as follows (share amounts in thousands):

	HGI		
Warrants	Units	Weighted Average Exercise	Weighted Average Grant

		Price	Date Fair Value
Warrants outstanding at September 30, 2013	—	$—	$—
Granted	3,000	13.25	3.19
Warrants outstanding at June 30, 2014	3,000	13.25	3.19
Warrants vested and exercisable at June 30, 2014	600	13.25	3.19
Warrants outstanding and expected to vest	2,400	13.25	3.19

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HGI

During the nine months ended June 30, 2014, HGI granted stock option awards, restricted stock awards and restricted stock unit awards representing approximately 1,356 thousand, 3,313 thousand and 7 thousand shares, respectively. HGI granted stock option awards, restricted stock awards and restricted stock unit awards representing approximately 30 thousand, 10 thousand and 7 thousand shares, respectively, during the three months ended June 30, 2014. All of these grants are time based, and vest either immediately, or over periods of 1 year to 3 years. The total fair value of the stock grants during the nine months ended June 30, 2014 on their respective grant dates was approximately $46.6. During the nine months ended June 30, 2014 stock option awards and restricted stock awards with a total fair value of $14.8 vested. The total intrinsic value of share options exercised during the nine months ended June 30, 2014 was $3.6, for which HGI received cash of $2.5 in settlement.

During the nine months ended June 30, 2013, HGI granted stock option awards, restricted stock awards, and restricted stock unit awards representing approximately 1,528 thousand, 3,256 thousand and 9 thousand shares, respectively. During the three months ended June 30, 2013 HGI granted no stock option awards, restricted stock awards or restricted stock unit awards. All of these grants are time based, and vest over periods of 7 months up to 48 months. The total fair value of the stock grants on their respective grant dates was approximately $33.2.

In March 2014, the Company awarded warrants to our Chief Executive Officer, Philip Falcone, representing the right to purchase approximately 3 million shares of our common stock, at an exercise price of $13.25 per share. The warrants awarded to our Chief Executive Officer were granted following receipt of approval from our stockholders in May 2014. A portion of the warrants, representing 600 thousand shares, vested immediately upon approval of the grant, and the remainder would vest over a period of 4 years. The estimated grant date fair value of this award was $9.6.

Under HGI's executive bonus plan for the fiscal year ending September 30, 2014, executives will be paid in cash, stock, stock options and restricted stock shares. The equity grants are expected to be granted in the first quarter of the fiscal year ending September 30, 2015, and to vest, either immediately, or between 1 year and 3 years from the grant date.

As of June 30, 2014, there was approximately $32.2 of total unrecognized compensation cost related to unvested share-based compensation agreements previously granted, which is expected to be recognized over a weighted-average period of 1.81 years.

The fair values of restricted stock and restricted stock unit awards are determined based on the market price of HGI's common stock on the grant date. The fair value of stock option awards and warrants are determined using the Black-Scholes option pricing model.

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

	2014	2013
Risk-free interest rate	1.46% to 1.75%	0.85%
Assumed dividend yield	—%	—%
Expected option term	5.3 to 6.0 years	5.3 to 6.0 years
Volatility	41.2%	42.8% to 44.0%

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

	2014
Risk-free interest rate	0.53% to 1.27%
Assumed dividend yield	—%
Expected option term	2.4 to 4.3 years
Volatility	40.3% to 43.6%

The weighted-average remaining contractual term of outstanding stock option awards and warrants at June 30, 2014, was 8.44 years and 4.69 years, respectively.

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Spectrum Brands

Spectrum Brands granted restricted stock units representing approximately 6 thousand and 442 thousand shares during the three and nine months ended June 30, 2014, respectively. Of these grants, 91 thousand restricted stock units vested immediately and 58 thousand restricted stock units are time-based and vest over a period of one year. The remaining 293 thousand restricted stock units are performance and time-based and vest over a period of two years. The total market value of the restricted shares on the date of the grant was approximately $30.6.

Spectrum Brands granted restricted stock units representing approximately 30 thousand and 666 thousand shares during the three and nine months ended June 30, 2013, respectively. Of these grants, 22 thousand restricted stock units are time-based and vest over a period of one year. Of the remaining 644 thousand restricted stock units, 90 thousand are performance-based and vest over a one year period, and 554 thousand restricted stock units are performance and time-based and vest over a period of two years. The total market value of the restricted shares on the date of the grant was approximately $30.2.

The fair value of restricted stock units are determined based on the market price of Spectrum Brands' common stock on the grant date.

FGL

In conjunction with the initial public offering, on November 7, 2013, FGL's board of directors adopted a long term stock-based incentive plan (the "FGL 2013 Stock Incentive Plan") under which certain officers, employees, directors and consultants are eligible to receive equity based awards. The FGL 2013 Stock Incentive Plan was approved by FGL's stockholder on November 19, 2013, became effective on December 12, 2013 and expires in December 2023. FGL's compensation committee approved the granting of awards under the FGL 2013 Stock Incentive Plan to certain employees, officers and directors (other than the members of the compensation committee). In addition, FGL's board of directors approved the granting of awards to members of FGL's compensation committee. The awards made to members of the FGL's compensation committee were not made under the FGL 2013 Stock Incentive Plan; however, these awards will be construed and administered as if subject to the terms of the FGL 2013 Stock Incentive Plan. FGL's board of directors and majority stockholder, HGI, also approved the granting of unrestricted common shares to its directors in lieu of cash compensation at the election of each individual director.

FGL's principal subsidiary, FGH, sponsors stock-based incentive plans and dividend equivalent plans ("DEPs") for its employees ("FGH Plans"). Awards under the FGH Plans are based on the common stock of FGH. In the year ended September 30, 2013, FGH determined that all equity awards will be settled in cash when exercised and therefore are classified as liability plans.

During the nine months ended June 30, 2014, FGL granted stock option awards, restricted stock awards and performance restricted stock units representing approximately 249 thousand, 171 thousand and 541 thousand shares, respectively. The stock option and restricted stock awards vest over a period of 3 years. The performance restricted stock units vest on September 30, 2016 contingent on the satisfaction of performance criteria and on the participant's continued employment unless otherwise noted in the agreement. The total fair value the stock grants during nine months ended June 30, 2014 on their respective grant dates was approximately $13.4. Additionally, on December 12, 2013, FGL granted 58 thousand unrestricted shares to certain directors in payment for services rendered. Total fair value of the unrestricted shares on the grant date was $1.0. FGL made no grants of stock option awards, restricted stock awards or performance restricted stock awards during the three months ended June 30, 2014.

The total compensation cost related to non-vested options, restricted stock units and dividend equivalent plans, not yet recognized as of June 30, 2014 totaled $18.8 and will be recognized over a weighted-average period of 2.1 years.

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The fair value of stock options awarded by, respectively, FGL during the nine months ended June 30, 2014, and FGH during the nine months ended June 30, 2013, is determined using the Black-Scholes option pricing model. The following assumptions were used in the determination of these grant date fair values using the Black-Scholes option pricing model:

	2014	2013
Risk-free interest rate	1.4%	0.8%
Assumed dividend yield	1.5%	6%
Expected option term	4.5 years	4.5 years
Volatility	25%	27%

(12) Income Taxes

For the three and nine months ended June 30, 2014, the Company's effective tax rates were 27.5% and 48.3%, respectively. They differ from U.S Federal statutory rate of 35% primarily due to: (i) the profitability of our life insurance group, which files its own consolidated Federal income tax return; (ii) pretax losses in the United States and some foreign jurisdictions for which the Company concluded that the tax benefits are not more likely-than-not realizable, resulting in valuation allowances; and (iii) tax amortization of certain indefinite lived intangibles. Partially offsetting these factors in the nine months ended June 30, 2014 was the release of U.S. valuation allowances totaling $35.0 on deferred tax assets that FGL has determined are more-likely-than-not-realizable due to viable tax planning strategies.

For the three and nine months ended June 30, 2013, the Company's effective tax rates of 23.7% and 55.1%, respectively, were negatively impacted by the following: (i) the profitability of our life insurance group which files its own consolidated Federal income tax return; (ii) pretax losses in the U.S. and some foreign jurisdictions for which the Company concluded that the tax benefits are not more likely-than-not realizable, resulting in valuation allowances; and (iii) tax amortization of certain indefinite lived intangibles; resulting deferred tax liabilities are not a source of income for the realization of deferred tax assets; therefore, this causes higher valuation allowances. Partially offsetting these factors in the nine months ended June 30, 2013 were: (i) the release of U.S. valuation allowances totaling $49.3 on deferred tax assets that Spectrum Brands determined are more-likely-than-not realizable as a result of an acquisition; and (ii) $81.9 of non-taxable income, resulting from a decrease in the fair value of the equity conversion feature of preferred stock.

Net operating loss ("NOL") and tax credit carryforwards of HGI and Spectrum Brands are subject to full valuation allowances and those of FGL are subject to partial valuation allowances, as the Company concluded all or a portion of the associated tax benefits are not more likely-than-not realizable. Utilization of NOL and other tax credit carryforwards of HGI, Spectrum Brands and FGL are subject to limitations under Internal Revenue Code ("IRC") Sections 382 and 383. Such limitations result from ownership changes of more than 50 percentage points over a three-year period.

The Company recognizes in its consolidated financial statements the impact of a tax position if it concludes that the position is more-likely-than-not sustainable upon audit, based on the technical merits of the position. At June 30, 2014 and September 30, 2013, the Company had $11.9 and $13.8, respectively, of unrecognized tax benefits related to uncertain tax positions. If recognized in the future, $8.2 and $10.1, respectively, of unrecognized tax benefits would impact the effective tax rate at those dates. The Company also had approximately $3.7 and $3.7, respectively, of accrued interest and penalties related to the uncertain tax positions at those dates. Interest and penalties related to uncertain tax positions are reported in the financial statements as part of income tax expense. As of June 30, 2014, certain of the Company’s legal entities in various jurisdictions are undergoing income tax audits. The Company cannot predict the ultimate outcome of the examinations; however, it is reasonably possible that during the next 12 months some portion of previously unrecognized tax benefits could be recognized.

Effective October 1, 2012, Spectrum Brands' management decided to not permanently reinvest earnings for the fiscal year ended September 30, 2012, and prospectively. Foreign earnings that are currently remitted will be used by Spectrum Brands to prepay its U.S. debt, repurchase shares and fund U.S. acquisitions and ongoing U.S. operational cash flow requirements. As a result of the valuation allowance recorded against Spectrum Brands’ U.S. net deferred tax

assets, including net operating loss carryforwards, Spectrum Brands does not expect to incur incremental U.S. tax expense on expected future repatriations of foreign earnings. For the fiscal year ending

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September 30, 2014, Spectrum Brands expect to accrue less than $2.0 of additional foreign tax expense from non-U.S. withholding and other taxes expected to be incurred as a result of the repatriation of current foreign earnings.
During the nine months ended June 30, 2014, Spectrum Brands recorded a $178.7 reduction of its U.S. net operating loss carryforwards as a result of actual and deemed repatriations of foreign earnings. Due to full valuation allowances on the Spectrum Brands' U.S. net operating loss carryforwards, there was no material impact on Spectrum Brands' quarterly or projected annual income tax expense.

(13) Earnings Per Share
The following table sets forth the computation of basic and diluted EPS (share amounts in thousands):

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Net income (loss) attributable to common and participating preferred stockholders	$49.0	$91.6	$(77.6)	$108.1
Participating shares at end of period:				
Common shares outstanding	201,043	140,576	201,043	140,576
Preferred shares (as-converted basis)	—	61,987	—	61,987
Total	201,043	202,563	201,043	202,563
Percentage of income (loss) allocated to:				
Common shares	100.0 %	69.4 %	100.0 %	69.4 %
Preferred shares (a)	— %	30.6 %	— %	30.6 %
Net income (loss) attributable to common shares - basic	$49.0	$63.6	$(77.6)	$75.0
Dilutive adjustments to income (loss) attributable to common shares from assumed conversion of preferred shares, net of tax:				
Income allocated to preferred shares in basic calculation	—	28.0	—	33.1
Reversal of preferred stock dividends and accretion	—	12.0	—	36.3
Reversal of income related to fair value of preferred stock conversion feature	—	(52.6)	—	(81.9)
Net adjustment	—	(12.6)	—	(12.5)
Net income (loss) attributable to common shares - diluted	$49.0	$51.0	$(77.6)	$62.5
Weighted-average common shares outstanding - basic	172,967	140,292	150,675	139,832
Dilutive effect of preferred stock	—	62,413	—	62,555
Dilutive effect of unvested restricted stock and restricted stock units	3,798	1,853	—	2,231
Dilutive effect of stock options	1,281	662	—	612
Weighted-average shares outstanding - diluted	178,046	205,220	150,675	205,230
Net income (loss) per common share attributable to controlling interest:				
Basic	$0.28	$0.45	$(0.52)	$0.54

Diluted	$0.28	$0.25	$(0.52)	$0.30

(a) Losses are not allocated to the convertible participating preferred shares for the period that these shares were outstanding, since they have no contractual obligation to share in such losses.

The number of shares of common stock outstanding used in calculating the weighted average thereof reflects the actual number of HGI common stock outstanding, excluding unvested restricted stock.

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For the three months ended June 30, 2014, there were 28,911 thousand weighted-average shares issuable upon the conversion of the Preferred Stock that were excluded from the calculation of "diluted net loss per common share attributable to controlling interest" because the as-converted effect of the Preferred Stock would have been anti-dilutive for the three months ended June 30, 2014.
For the nine months ended June 30, 2014, there were 50,979 thousand weighted-average shares issuable upon the conversion of the Preferred Stock, and 2,380 thousand and 1,297 thousand weighted-average shares, respectively, of the unvested restricted stock and stock units and stock options that were excluded from the calculation of "diluted net loss per common share attributable to controlling interest" because the as-converted effect of the Preferred Stock and unvested restricted stock and stock units and stock options would have been anti-dilutive for the nine months ended June 30, 2014.
Also excluded from the calculation were 3 million warrants because the exercise price of $13.25 per share was above the average stock price for the three and nine months ended June 30, 2014.

(14) Commitments and Contingencies
The Company has aggregate reserves for its legal, environmental and regulatory matters of approximately $24.9 at June 30, 2014. These reserves relate primarily to the matters described below. However, based on currently available information, including legal defenses available to the Company, and given the aforementioned reserves and related insurance coverage, the Company does not believe that the outcome of these legal, environmental and regulatory matters will have a material effect on its financial position, results of operations or cash flows.
Legal and Environmental Matters
HGI
HGI is a nominal defendant, and the members of its board of directors are named as defendants in a purported class and derivative action filed in March 2014 by Haverhill Retirement System in the Delaware Court of Chancery. Harbinger Capital Partners LLC and certain of its affiliated funds ("HCP") and Leucadia National Corporation ("Leucadia"), each a stockholder of HGI, are also named as defendants in the complaint. The complaint alleges, among other things, that the defendants breached their fiduciary duties in connection with transactions involving Leucadia. The complaint seeks, among other things, an unspecified award of compensatory damages and costs and disbursements. The Company believes the allegations are without merit and intends to vigorously defend this matter.
HGI is a nominal defendant, and the members of its board of directors are named as defendants in a derivative action filed in December 2010 by Alan R. Kahn in the Delaware Court of Chancery. HCP is also named as a defendant. The plaintiff alleges that the Spectrum Brands acquisition was financially unfair to HGI and its public stockholders and seeks unspecified damages and the rescission of the transaction. The Company believes the allegations are without merit and intends to vigorously defend this matter.
In a pending case before the U.S. District Court for the Southern District of New York, in which FGL is suing OM Group (UK) Limited ("OMGUK") for a $50.0 purchase price adjustment in connection with HGI's acquisition of FGL's subsidiaries on April 6, 2011, OMGUK counterclaimed that FGL breached its obligations under the First Amended and Restated Stock Purchase Agreement dated February 17, 2011 ("F&G Stock Purchase Agreement") to pay required fees to OMGUK related to the financing of reserves referred to as "CARVM". FGL has opposed this counterclaim. On May 27, 2014, the court granted OMGUK's motion for summary judgment as to the CARVM fees. OMGUK must still prove damages at trial, which it estimates to be approximately $6.1. Trial of the counterclaim, as well as FGL's claim for $50.0, is scheduled for October 20, 2014. HGI is considering taking an appeal of any judgment following trial on the CARVM counterclaim. HGI owns all of the rights, title, interest, liabilities and obligations under this litigation against OMGUK.
HGI and its subsidiaries are also involved in other litigation and claims related to their current and prior businesses. These include claims and litigations involving HGI's and its subsidiaries current business practices and transactions and certain workers compensation, environmental matters, cases in state courts and in a Federal multi-district litigation alleging injury from exposure to asbestos on offshore drilling rigs and shipping vessels alleged to have been formerly owned or operated by HGI's offshore drilling and bulk-shipping affiliates. Based on currently available information, including legal defenses available to it, and given its reserves and related insurance coverage, the

Company does not believe that the outcome of these legal and environmental matters will have a material effect on its financial position, results of operations or cash flows.

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Spectrum Brands

Spectrum Brands has accrued approximately $4.7 for the estimated costs associated with environmental remediation activities at some of its current and former manufacturing sites. Spectrum Brands believes that any additional liability which may result from resolution of these matters in excess of the amounts provided for will not have a material adverse effect on the financial condition, results of operations or cash flows of Spectrum Brands.

Spectrum Brands is a defendant in various other matters of litigation generally arising out of the ordinary course of business. Spectrum Brands does not believe that the resolution of any other matters or proceedings presently pending will have a material adverse effect on its results of operations, financial condition, liquidity or cash flows.

FGL

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

FGL is assessed amounts by the state guaranty funds to cover losses to policyholders of insolvent or rehabilitated insurance companies. Those mandatory assessments may be partially recovered through a reduction in future premium taxes in certain states. At June 30, 2014, FGL has accrued $4.4 for guaranty fund assessments which is expected to be offset by estimated future premium tax deductions of $4.7.

FGL has received inquiries from a number of state regulatory authorities regarding its use of the U.S. Social Security Administration’s Death Master File (the "Death Master File") and compliance with state claims practices regulation. To date, FGL has received inquiries from authorities in Maryland, Minnesota and New York. The New York Insurance Department issued a letter and subsequent regulation requiring life insurers doing business in New York to use the Death Master File or similar databases to determine if benefits were payable under life insurance policies, annuities, and retained asset accounts. Legislation requiring insurance companies to use the Death Master File to identify potential claims has recently been enacted in Maryland and other states. As a result of these legislative and regulatory developments, in May 2012 FGL undertook an initiative to use the Death Master File and other publicly available databases to identify persons potentially entitled to benefits under life insurance policies, annuities and retained asset accounts. In July 2012, FGL incurred an $11.0 pre-tax charge, net of reinsurance, to increase reserves to cover potential benefits payable resulting from this ongoing effort. Based on its analysis to date, and management’s estimate, FGL believes this accrual will cover the reasonably estimated liability arising out of these developments. In addition, FGL has received audit and examination notices from several state agencies responsible for escheatment and unclaimed property regulation in those states. FGL has established a contingency of $2.0, the mid-point of an estimated range of $1.0 to $3.0, related to the external legal costs and administrative costs of said audits and examinations of which $0.4 has been paid through June 30, 2014. Additional costs that cannot be reasonably estimated as of the date of this filing are possible as a result of ongoing regulatory developments and other future requirements related to this matter.

On July 18, 2011, a putative class action complaint was filed in the United States District Court for the Central District of California captioned Eddie L. Cressy v. OM Financial Life Insurance Company ("OM Financial"), et al., Case No. 2:2011-cv-05871. The Plaintiff asked the Court to certify the action as a class action on behalf of both a nationwide and a California class defined as certain persons who were sold OM Financial Life Insurance equity-indexed universal life insurance policies. The Plaintiff alleged, inter alia, that the Plaintiff and members of the putative class relied on Defendants' advice to purchase unsuitable insurance policies. After extensive motion practice, the federal court dismissed the federal causes of action, with prejudice, and, on May 9, 2013, declined to exercise supplemental jurisdiction over the state law claims, dismissed the state law claims, without prejudice, and granted the plaintiff leave to re-file the state law claims in California state court.

On July 5, 2013, the Plaintiff filed a putative class action captioned Eddie L. Cressy v. Fidelity Guaranty Life Insurance Company, et al., in the Superior Court of California, County of Los Angeles, at No. BC-514340. The state court Complaint asserts, inter alia, that the Plaintiff and members of the putative class relied on Defendants' advice in purchasing unsuitable equity-indexed insurance policies. The Plaintiff seeks to certify a class defined as

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"all persons who reside or are located in the state of California who were sold OM Financial/FGL Insurance equity-indexed universal life insurance policies as an investment."

On April 4, 2014, the Plaintiff, FGL Insurance and the other two defendants signed a Settlement Agreement, pursuant to which FGL Insurance has agreed to pay a total of $5.3 to settle the claims of a nationwide class consisting, with certain exclusions, of all persons who own or owned an OM Financial/FGL Insurance indexed universal life insurance policy issued from January 1, 2007 through March 31, 2014, inclusive. As part of the settlement, FGL Insurance agreed to certification of the nationwide class for settlement purposes only. An amended Settlement Agreement was filed with the court on April 23, 2014 as part of the Plaintiff's Unopposed Motion for Preliminary Approval of Settlement and Conditional Class Certification, which is scheduled to be heard by the Court on June 19, 2014. FGL Insurance has the right to unilaterally terminate the settlement if either: (i) 100 policyholders or (ii) policyholders representing more than one percent (1%) of the total premiums paid opt out of or object to the settlement. The settlement is subject to other conditions and the Court's final approval.

At June 30, 2014, FGL estimated the total cost for the settlement, legal fees and other costs related to this class action would be $9.9 and established a liability for the unpaid portion of the estimate of $7.3. Based on the information currently available, FGL does not expect the actual cost for settlement, legal fees and other related costs to differ materially from the amount accrued. FGL is seeking indemnification from OMGUK under the F&G Stock Purchase Agreement between FGL (formerly, Harbinger F&G, LLC) and OMGUK related to the settlement and the costs and fees in defending the Cressy litigation in both the federal and state courts. FGL has established an amount recoverable from OMGUK for the amount of $4.5, the collection of which FGL believes is probable. The actual amount recovered from OMGUK could be greater or less than FGL's estimate, but FGL anticipates that the amount recovered will not be materially different than its current estimate.

In light of the inherent uncertainties involved in the matters described above and uncertainties in litigation generally, there can be no assurance that the matters described above, or any other pending or future litigation, will not have a material adverse effect on FGL's business, financial condition, or results of operations.

Compass

Various federal, state and local laws and regulations covering discharge of materials into the environment, or otherwise relating to the protection of the environment, may affect Compass' operations and the costs of its oil and natural gas exploitation, development and production operations. Compass does not anticipate that it will be required in the foreseeable future to expend amounts material in relation to the financial statements taken as a whole by reason of environmental laws and regulations. Because these laws and regulations are constantly being changed, Compass is unable to predict the conditions and other factors over which Compass does not exercise control that may give rise to environmental liabilities affecting it.

Guarantees

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

The F&G Stock Purchase Agreement includes a Guarantee and Pledge Agreement which creates certain obligations for FGH as a grantor and also grants a security interest to OMGUK of FGH's equity interest in FGL Insurance in the event that FGL fails to perform in accordance with the terms of the F&G Stock Purchase Agreement. The Company is not aware of any events or transactions that resulted in non-compliance with the Guarantee and Pledge Agreement.

Unfunded Asset Based Lending Commitments

Through Salus, the Company enters into commitments to extend credit to meet the financing needs of its asset based lending customers upon satisfaction of certain conditions. At June 30, 2014, the notional amount of unfunded,

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legally binding lending commitments was approximately $164.6, of which $37.0 expires in one year or less, and the remainder expires between one and five years.

(15) Related Party Transactions

The Company has a reciprocal services agreement (the “Services Agreement”) with Harbinger Capital, a related party of the Company, with respect to the provision of services that may include providing office space and operational support and each party making available their respective employees to provide services as reasonably requested by the other party, subject to any limitations contained in applicable employment agreements and the terms of the Services Agreement. Under the Services Agreement, the Company recognized $1.5 and $4.4 of expenses for the three and nine months ended June 30, 2014, respectively, and $1.6 and $3.0 of expenses for the three and nine months ended June 30, 2013, respectively.

On March 18, 2014, HGI entered into the Letter Agreement with Leucadia (the “Letter Agreement”). The Letter Agreement was entered into in connection with the consummation of the transactions contemplated by that certain Preferred Securities Purchase Agreement, dated March 18, 2014 (the “PSPA”), by and among Harbinger Capital Partners Master Fund I, Ltd., Global Opportunities Breakaway Ltd. and Harbinger Capital Partners Special Situations Fund, L.P. (together, the “HCP Stockholders”) and Leucadia, pursuant to which Leucadia acquired, following receipt of regulatory approval, 23,000 thousand shares of Common Stock, at a price of $11.00 per share of Common Stock, for an aggregate purchase price of $253.0 in cash. HGI did not sell any securities in the transaction. Pursuant to the Letter Agreement, Leucadia have designated two directors to HGI's board. The Letter Agreement further provides, among other things, that without the prior approval of a majority of the directors on HGI's board (other than the Leucadia designees), Leucadia and its affiliates will not acquire additional shares or voting rights of HGI that would increase Leucadia’s beneficial ownership above 27.5% of the voting power of HGI’s outstanding securities. The Letter Agreement also restricts Leucadia’s and its affiliates’ ability to make certain proposals or solicit such proxies and limits their ability to sell Leucadia’s investment in HGI to counterparties who hold, or after giving effect to a sale would hold, in excess of 4.9% of HGI’s voting stock (subject to certain exceptions). Leucadia also agreed to vote in favor of the slate of directors nominated by a majority of HGI’s board (other than the Leucadia designees). The terms of the Letter Agreement, including the provisions described above, last until March 18, 2016. In connection with the March 2014 transaction with Leucadia, under the terms of an existing registration rights agreement, the HCP Stockholders transferred a portion of their rights under the registration rights agreement with respect to the shares underlying Leucadia’s Preferred Stock and HGI entered into a Registration Rights Acknowledgement among it, the HCP Stockholders and Leucadia acknowledging such transfer. A special committee of HGI’s board, comprised of independent directors under the NYSE Rules, advised by two separate outside counsel, determined that it is in the best interests of HGI and its stockholders (not including Harbinger Capital and Leucadia and their respective affiliates) for HGI to enter into the foregoing agreements and the related transactions.

In December 2013, FGL completed an initial public offering of 9,750 thousand shares of common stock, and the underwriters exercised their option to purchase from the Company an additional 1,463 thousand shares of common stock, at a price of $17.00 per share. Jefferies LLC ("Jefferies"), one of the participating underwriters, is a wholly owned subsidiary of Leucadia, which through subsidiaries beneficially owns more than 10% of HGI’s outstanding shares of Common Stock. The underwriters in FGL’s completed initial public offering received aggregate discounts and commissions paid by FGL of $12.9, a portion of which was paid to Jefferies as a participating underwriter.

FGL invested in collateralized loan obligation ("CLO") securities issued by Fortress Credit Opportunities III CLO LP ("FCO III") and also invested in securities issued by Fortress Credit BSL Limited ("Fortress BSL"). The parent of both FCO III and Fortress BSL is Fortress Investment Group LLC ("Fortress"), which has acquired interests greater than 10% ownership in HGI as of June 30, 2014.

As of June 30, 2014, Leucadia's ownership interest in the outstanding common shares of HGI exceeded 10%. As of June 30, 2014, FGL holds $37.3 par value of debt securities issued by Leucadia as well as corporate debt issued by Jefferies.

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FGL’s consolidated related party investments as of June 30, 2014 are summarized as follows:

		June 30, 2014		
Issuer	Balance Sheet Classification	Asset carrying value	Accrued Investment Income	Total carrying value
Fortress	Fixed maturities, available for sale	$106.5	$0.7	$107.2
Leucadia	Fixed maturities, available for sale	37.3	0.4	37.7
Jefferies	Fixed maturities, available for sale	69.0	1.4	70.4

FGL's related net investment income for the three and nine months ended June 30, 2014 are summarized as follows:

		June 30, 2014	
Issuer	Investment Income Classification	Three months ended	Nine months ended
Fortress	Net investment income - fixed maturities	$0.9	$0.9
Leucadia	Net investment income - fixed maturities	1.3	1.3
Jefferies	Net investment income - fixed maturities	0.9	2.6

(16) Segment Data

The Company follows the accounting guidance which establishes standards for reporting information about operating segments in interim and annual financial statements. The Company’s reportable business segments are organized in a manner that reflects how HGI’s management views those business activities. Accordingly, the Company currently operates its business in four reporting segments: (i) Consumer Products, (ii) Insurance, (iii) Energy and (iv) Asset Management.

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Revenues:				
Consumer Products	$1,128.5	$1,089.8	$3,250.8	$2,947.8
Insurance	419.5	279.7	1,066.7	1,025.6
Energy	37.6	37.8	112.3	54.5
Asset Management	11.3	7.1	25.6	20.8
Intersegment elimination	(2.2)	(5.2)	(9.5)	(6.1)
Consolidated segment revenues	1,594.7	1,409.2	4,445.9	4,042.6
Corporate and Other	4.7	—	4.7	—
Total revenues	$1,599.4	$1,409.2	$4,450.6	$4,042.6
Operating income:				
Consumer Products	$148.7	$115.7	$366.3	$236.1
Insurance	108.6	83.3	220.2	354.9
Energy	8.6	4.8	(57.2)	5.3
Asset Management	3.1	2.4	3.2	10.2
Intersegment elimination	(2.0)	(6.1)	(9.7)	(6.1)
Total segments	267.0	200.1	522.8	600.4
Corporate and eliminations	(37.9)	(17.5)	(98.2)	(68.4)
Consolidated operating income	229.1	182.6	424.6	532.0
Interest expense	(77.9)	(83.9)	(239.1)	(302.7)
Gain (loss) from the change in the fair value of the equity conversion feature of preferred stock	38.0	52.6	(12.7)	81.9

Gain on contingent purchase price reduction	—	—	0.5	—
Other income (expense), net	6.0	4.2	(10.5)	(7.7)
Income from continuing operations before income taxes	$195.2	$155.5	$162.8	$303.5

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Net change in cash due to operating activities	Nine months ended June 30, 2014	2013
Consumer Products	$(50.9)	$(75.6)
Insurance	279.4	230.9
Energy	34.8	20.8
Asset Management	(1.2)	2.6
Net change in cash due to segment operating activities	262.1	178.7
Net change in cash due to corporate and other operating activities, including intersegment eliminations	(97.7)	(84.7)
Consolidated change in cash due to operating activities	$164.4	$94.0

(17) Consolidating Financial Information

The following schedules present the Company’s consolidating balance sheet information at June 30, 2014 and September 30, 2013, and consolidating statements of operations information for the nine months ended June 30, 2014 and 2013. These schedules present the individual segments of the Company and their contribution to the consolidated financial statements. Amounts presented will not necessarily be the same as those in the individual financial statements of the Company’s subsidiaries due to adjustments for purchase accounting, income taxes and noncontrolling interests. In addition, some of the Company’s subsidiaries use a classified balance sheet which also leads to differences in amounts reported for certain line items.

The Corporate and Other column primarily reflects the parent company’s investment in its subsidiaries, invested cash portfolio and corporate long term debt, and the results of FOH subsequent to its acquisition on May 30, 2014. The elimination adjustments are for intercompany assets and liabilities, interest and dividends, the parent company’s investment in capital stocks of subsidiaries, and various reclasses of debit or credit balances to the amounts in consolidation. Purchase accounting adjustments have been pushed down to the appropriate subsidiary.

Harbinger Group Inc. - Condensed Consolidating Balance Sheets Information

June 30, 2014	Consumer Products	Insurance	Energy	Asset Management	Corporate and Other	Eliminations	Total
Assets:							
Investments	$—	$18,365.0	$—	$544.7	$88.2	$(246.8)	$18,751.1
Investments in subsidiaries and affiliates	—	72.4	—	—	2,247.8	(2,320.2)	—
Affiliated loans and receivables	—	157.4	—	28.8	0.3	(186.5)	—
Cash and cash equivalents	85.1	920.5	22.5	98.9	328.9	—	1,455.9
Receivables, net	604.6	0.5	17.1	0.5	42.2	—	664.9
Inventories, net	734.8	—	—	—	11.9	—	746.7
Accrued investment income	—	157.2	—	3.3	—	(0.6)	159.9
Reinsurance recoverable	—	2,393.7	—	—	—	—	2,393.7
Deferred tax assets	39.1	106.7	—	0.1	—	—	145.9
Properties, including oil and natural gas properties, net	440.4	9.9	471.0	1.2	2.0	—	924.5
Goodwill	1,484.5	—	—	10.7	43.9	—	1,539.1
Intangibles, including DAC and VOBA, net	2,136.2	486.9	—	—	41.7	—	2,664.8
Other assets	172.4	217.0	2.8	12.7	33.8	—	438.7
Total assets	$5,697.1	$22,887.2	$513.4	$700.9	$2,840.7	$(2,754.1)	$29,885.2
Liabilities and Equity:							
Insurance reserves	$—	$19,988.0	$—	$—	$—	$—	$19,988.0
Debt	3,336.6	300.0	250.6	291.9	1,124.3	—	5,303.4
Accounts payable and other current liabilities	680.7	58.2	33.1	7.3	120.6	—	899.9
Employee benefit obligations	84.8	—	—	—	2.6	—	87.4
Deferred tax liabilities	506.7	—	—	—	15.4	0.1	522.2
Other liabilities	28.5	653.0	26.9	24.0	1.2	—	733.6
Affiliated debt and payables	—	5.6	99.9	293.4	34.6	(433.5)	—
Total liabilities	4,637.3	21,004.8	410.5	616.6	1,298.7	(433.4)	27,534.5
Total stockholders' equity	596.7	1,548.7	102.9	72.4	1,534.3	(2,320.7)	1,534.3
Noncontrolling interests	463.1	333.7	—	11.9	7.7	—	816.4
Total permanent equity	1,059.8	1,882.4	102.9	84.3	1,542.0	(2,320.7)	2,350.7
Total liabilities and equity	$5,697.1	$22,887.2	$513.4	$700.9	$2,840.7	$(2,754.1)	$29,885.2

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September 30, 2013	Consumer Products	Insurance	Energy	Asset Management	Corporate and Other	Eliminations	Total
Assets:							
Investments	$—	$16,282.3	$—	$389.3	$42.3	$(248.0)	$16,465.9
Investment in subsidiaries and affiliates	—	62.0	—	—	2,012.9	(2,074.9)	—
Affiliated loans and receivables	—	150.1	—	0.9	—	(151.0)	—
Cash and cash equivalents	207.3	1,248.3	18.7	166.5	258.9	—	1,899.7
Receivables, net	546.9	—	22.2	1.2	41.0	—	611.3
Inventories, net	632.9	—	—	—	—	—	632.9
Accrued investment income	—	159.3	—	2.3	—	(0.4)	161.2
Reinsurance recoverable	—	2,363.7	—	—	—	—	2,363.7
Deferred tax assets	33.0	260.4	—	—	—	—	293.4
Properties, including oil and natural gas properties, net	412.5	7.0	572.6	0.7	0.5	—	993.3
Goodwill	1,476.7	—	—	—	—	—	1,476.7
Intangibles, including DAC and VOBA, net	2,163.2	565.9	—	—	—	—	2,729.1
Other assets	154.2	84.1	4.1	11.3	27.9	—	281.6
Total assets	$5,626.7	$21,183.1	$617.6	$572.2	$2,383.5	$(2,474.3)	$27,908.8
Liabilities and Equity:							
Insurance reserves	$—	$18,895.9	$—	$—	$—	$—	$18,895.9
Debt	3,218.9	300.0	271.2	181.8	924.2	—	4,896.1
Accounts payable and other current liabilities	849.4	52.9	32.8	6.3	71.3	—	1,012.7
Equity conversion feature of preferred stock	—	—	—	—	330.8	—	330.8
Employee benefit obligations	96.6	—	—	—	3.0	—	99.6
Deferred tax liabilities	492.8	—	—	—	—	—	492.8
Other liabilities	28.9	640.2	25.4	23.3	0.2	—	718.0
Affiliated debt and payables	—	0.8	102.2	293.3	—	(396.3)	—
Total liabilities	4,686.6	19,889.8	431.6	504.7	1,329.5	(396.3)	26,445.9
Temporary equity	—	—	0.1	—	329.3	—	329.4
Total stockholders' equity	531.0	1,293.3	185.9	67.8	724.7	(2,078.0)	724.7
Noncontrolling interests	409.1	—	—	(0.3)	—	—	408.8
Total permanent equity	940.1	1,293.3	185.9	67.5	724.7	(2,078.0)	1,133.5
Total liabilities and equity	$5,626.7	$21,183.1	$617.6	$572.2	$2,383.5	$(2,474.3)	$27,908.8

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Harbinger Group Inc. - Condensed Consolidating Statements of Operations Information

Nine months ended June 30, 2014	Consumer Products	Insurance	Energy	Asset Management	Corporate and Other	Eliminations	Total
Revenues:							
Net consumer and other product sales	$3,250.8	$—	$—	$—	$4.7	$—	$3,255.5
Oil and natural gas	—	—	112.3	—	—	—	112.3
Insurance premiums	—	42.0	—	—	—	—	42.0
Net investment income	—	602.9	—	25.6	—	(10.0)	618.5
Net investment gains	—	366.9	—	—	—	0.5	367.4
Insurance and investment product fees and other	—	54.9	—	—	—	—	54.9
Total revenues	3,250.8	1,066.7	112.3	25.6	4.7	(9.5)	4,450.6
Operating costs and expenses:							
Cost of consumer products and other goods sold	2,092.9	—	—	—	3.5	—	2,096.4
Oil and natural gas direct operating costs	—	—	50.9	—	—	—	50.9
Benefits and other changes in policy reserves	—	696.3	—	—	—	—	696.3
Selling, acquisition, operating and general expenses	730.4	89.9	37.6	22.4	99.4	0.2	979.9
Impairment of oil and gas properties	—	—	81.0	—	—	—	81.0
Amortization of intangibles	61.2	60.3	—	—	—	—	121.5
Total operating costs and expenses	2,884.5	846.5	169.5	22.4	102.9	0.2	4,026.0
Operating income (loss)	366.3	220.2	(57.2)	3.2	(98.2)	(9.7)	424.6
Equity in net income (losses) of subsidiaries	—	(1.8)	—	—	159.8	(158.0)	—
Interest expense	(151.7)	(16.9)	(5.9)	—	(64.6)	—	(239.1)
Affiliated interest expense	—	0.2	(6.8)	(4.4)	(0.5)	11.5	—
Gain (loss) from the change in the fair value of the equity conversion feature of preferred stock	—	—	—	—	(12.7)	—	(12.7)
Gain on contingent purchase price reduction	—	—	—	—	0.5	—	0.5
Other expense, net	(4.4)	—	(12.4)	(0.7)	11.1	(4.1)	(10.5)
	210.2	201.7	(82.3)	(1.9)	(4.6)	(160.3)	162.8

(Loss) income from continuing operations before income taxes							
Income tax expense	43.8	35.2	—	(0.1)	—	(0.2)	78.7
Net income	166.4	166.5	(82.3)	(1.8)	(4.6)	(160.1)	84.1
Less: Net income (loss) attributable to noncontrolling interest	69.0	19.7	—	—	(0.6)	—	88.1
Net income (loss) attributable to controlling interest	97.4	146.8	(82.3)	(1.8)	(4.0)	(160.1)	(4.0)
Less: Preferred stock dividends, accretion and loss on conversion	—	—	—	—	73.6	—	73.6
Net income (loss) attributable to common and participating preferred stockholders	$97.4	$146.8	$(82.3)	$(1.8)	$(77.6)	$(160.1)	$(77.6)

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Nine months ended June 30, 2013	Consumer Products	Insurance	Energy	Asset Management	Corporate and Other	Eliminations	Total
Revenues:							
Net consumer and other product sales	$2,947.8	$—	$—	$—	$—	$—	$2,947.8
Oil and natural gas	—	—	54.5	—	—	—	54.5
Insurance premiums	—	46.9	—	—	—	—	46.9
Net investment income	—	522.8	—	20.8	—	(6.1)	537.5
Net investment gains	—	411.5	—	—	—	—	411.5
Insurance and investment product fees and other	—	44.4	—	—	—	—	44.4
Total revenues	2,947.8	1,025.6	54.5	20.8	—	(6.1)	4,042.6
Operating costs and expenses:							
Cost of consumer products and other goods sold	1,954.0	—	—	—	—	—	1,954.0
Oil and natural gas operating costs	—	—	26.9	—	—	—	26.9
Benefits and other changes in policy reserves	—	431.7	—	—	—	—	431.7
Selling, acquisition, operating and general expenses	700.2	75.9	22.3	10.6	68.4	—	877.4
Amortization of intangibles	57.5	163.1	—	—	—	—	220.6
Total operating costs and expenses	2,711.7	670.7	49.2	10.6	68.4	—	3,510.6
Operating income	236.1	354.9	5.3	10.2	(68.4)	(6.1)	532.0
Equity in net income of subsidiaries	—	—	—	—	233.0	(233.0)	—
Interest expense	(191.8)	(5.9)	(2.8)	—	(102.2)	—	(302.7)
Affiliated interest expense	—	—	(3.4)	(2.7)	—	6.1	—
Loss from the change in the fair value of the equity conversion feature of preferred stock	—	—	—	—	81.9	—	81.9
Other (expense) income, net	(7.9)	0.2	0.8	(0.9)	0.1	—	(7.7)
Income from continuing operations before income taxes	36.4	349.2	(0.1)	6.6	144.4	(233.0)	303.5
Income tax expense	54.9	112.1	—	0.2	—	—	167.2
Net income	(18.5)	237.1	(0.1)	6.4	144.4	(233.0)	136.3
	(8.5)	—	—	0.4	—	—	(8.1)

Less: Net income attributable to noncontrolling interest							
Net income attributable to controlling interest	(10.0)	237.1	(0.1)	6.0	144.4	(233.0)	144.4
Less: Preferred stock dividends, accretion and loss on conversion	—	—	—	—	36.3	—	36.3
Net income attributable to common and participating preferred stockholders	$(10.0)	$237.1	$(0.1)	$6.0	$108.1	$(233.0)	$108.1

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" of Harbinger Group Inc. ("HGI," "we," "us," "our" and, collectively with its subsidiaries, the "Company") should be read in conjunction with our unaudited condensed consolidated financial statements included elsewhere in this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" of HGI which was included with our annual report filed on Form 10-K with the Securities and Exchange Commission (the "SEC") on November 27, 2013 (the "Form 10-K"). Certain statements we make under this Item 2 constitute "forward-

looking statements" under the Private Securities Litigation Reform Act of 1995. See "Forward-Looking Statements" in "Part II — Other Information" of this report. You should consider our forward-looking statements in light of our unaudited condensed consolidated financial statements, related notes, and other financial information appearing elsewhere in this report, the Form 10-K and our other filings with the SEC. In this Quarterly Report on Form 10-Q we refer to the three and nine months ended June 30, 2014 as the "Fiscal 2014 Quarter" and the "Fiscal 2014 Nine Months", respectively, and the three and nine months ended June 30, 2013 as the "Fiscal 2013 Quarter" and the "Fiscal 2013 Nine Months," respectively.

HGI Overview

We are a holding company and our principal operations are conducted through subsidiaries that offer life insurance and annuity products (Fidelity & Guaranty Life,“FGL”, formerly Harbinger F&G LLC), reinsurance (Front Street Re (Delaware) Ltd., “Front Street”), financing and asset management (Salus Capital Partners, LLC, “Salus”, Five Island Asset Management, LLC, “FIAM”, which holds our interests in FIAM Capital Management, LLC ("Five Island"), Energy & Infrastructure Capital (“EIC”) and CorAmerica Capital, LLC ("CorAmerica")), branded consumer products (Spectrum Brands Holdings, Inc., “Spectrum Brands”) such as batteries, small appliances, pet supplies, home and garden control products, personal care products and hardware and home improvement products. We also hold oil and natural gas properties through an equity investment in a joint venture (Compass Production GP, LLC and Compass Production Partners, LP, collectively, and together with their respective subsidiaries, "Compass", and formerly referred to as the "EXCO/HGI JV") with EXCO Resources, Inc. (“EXCO”) through our wholly-owned subsidiary, HGI Energy Holdings, LLC (“HGI Energy”). We also own 97.9% of Zap.Com Corporation (“Zap.Com”), a public shell company that may seek assets or businesses to acquire or may sell assets and/or liquidate. While we search for additional acquisition opportunities, we manage a portion of our available cash and acquire interests in possible acquisition targets through our wholly-owned subsidiary, HGI Funding, LLC ("HGI Funding").

We intend to acquire companies that we consider to be undervalued or fairly valued with attractive financial or strategic characteristics. We intend to take a long-term view and primarily seek opportunities that are able to generate high returns and significant cash flow to maximize long-term value for our stockholders. We intend to seek a variety of acquisition opportunities, including businesses where we believe a catalyst for value realization is already present, where we can engage with companies to unlock value or where we can realize synergies with our existing businesses. We may also seek businesses that are in need of a financial restructuring or operational turnaround. In addition to our intention to acquire controlling equity interests, we may also make investments in debt instruments and acquire minority equity interests in companies.

We believe that our access to the public equity markets may give us a competitive advantage over privately-held entities with whom we compete to acquire certain target businesses on favorable terms. We may pay acquisition consideration in the form of cash, our debt or equity securities, or a combination thereof. In addition, as a part of our acquisition strategy we may consider raising additional capital through the issuance of equity or debt securities.

We currently operate in four segments: (i) Consumer Products, which consists of Spectrum Brands; (ii) Insurance, which includes FGL and Front Street; (iii) Energy, which includes Compass; and (iv) Asset Management, which includes Salus, Five Island, EIC and CorAmerica.

Consumer Products Segment

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

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

Insurance Segment

Through FGL, we are a provider of annuity and life insurance products to the middle and upper-middle income markets in the United States. With its principal headquarters based in Des Moines, Iowa, and Baltimore, Maryland,

FGL operates in the United States through its subsidiaries Fidelity & Guaranty Life Insurance Company (“FGL

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Insurance") and Fidelity & Guaranty Life Insurance Company of New York ("FGL NY Insurance"). FGL's principal products are deferred annuities (including fixed indexed annuity ("FIA") contracts), immediate annuities, and life insurance products, which are sold through a network of independent insurance marketing organizations ("IMOs") and independent insurance agents.

FGL's profitability depends in large part upon the amount of assets under management, the ability to manage operating expenses, the costs of acquiring new business (principally commissions to agents and bonuses credited to policyholders) and the investment spreads earned on contractholder fund balances. Managing net investment spreads (the difference between the net investment income FGL earns and the sum of the interest credited to policyholders and the cost of hedging FGL's risk on the policies) involves the ability to manage investment portfolios to maximize returns and minimize risks such as interest rate changes and defaults or impairment of investments and the ability to manage interest rates credited to policyholders and costs of the options and futures purchased to fund the annual index credits on the FIAs.

Through Front Street and its Bermuda and Cayman-based life and annuity reinsurers, we seek to add value for cedants through a combination of experienced leadership and customized solutions. By partnering with cedants that have quantifiable risk profiles, Front Street anticipates the ability to manage risks and still maximize performance. Front Street implements a barbell asset management strategy that seeks to enhance investment yield as well as reduce risk and volatility.

Energy Segment

On February 14, 2013, EXCO and HGI formed Compass to own and operate conventional oil and natural gas properties. EXCO contributed to Compass its conventional assets in and above the Canyon Sand formation in the Permian Basin in West Texas as well as in the Holly, Waskom, Danville and Vernon fields in East Texas and North Louisiana. EXCO and HGI own an economic interest in Compass of 25.5% and 74.4%, respectively.

Compass' primary business objective is to over time generate stable cash flows and grow its asset base through acquisitions from a variety of sources, including third parties, EXCO and HGI. Given the inherent decline in the production potential of its existing assets base, Compass also intends to pursue a variety of acquisitions, including long-life conventional oil and natural gas properties. Compass believes that this strategy will allow it to generate and to opportunistically add incremental cash flows.

Asset Management Segment

Our Asset Management segment includes the activities of our asset-based lender, Salus, and our asset managers, Five Island, EIC and CorAmerica.

Through Salus, we are a provider of secured loans to the middle market across a variety of industries. Salus finances loan commitments that typically range from $5.0 to $50.0 million with the ability to lead and agent larger transactions. Salus' loans are funded through capital commitments from Salus equity, funds committed by FGL and Front Street as participants and funds committed by Salus' collateralized loan obligation ("CLO") securitization. As of June 30, 2014, Salus, along with its co-lenders FGL and Front Street, have funded loans totaling $731.0 million aggregate principal amount outstanding on a consolidated basis. During the Fiscal 2014 Quarter, Salus closed on 1 transaction, representing approximately $17.5 million in total commitment.

Salus provides secured asset-based loans to the middle market. Asset-based finance is a financing tool where the decision to lend is primarily based on the value of the borrowers' collateral. Collateral is viewed as the primary source of repayment, while the borrowers' creditworthiness is viewed as a secondary source of repayment. As a result, asset-based finance emphasizes the monitoring of the collateral that secures the asset-based loan. Salus focuses its credit analysis on the value of accounts receivable and inventory (or other assets) and estimates how much liquidity it can provide against those assets. Salus establishes a loan structure and collateral monitoring process that is continuous and focused on the collateral, significantly reducing the risk of loss inherent in delayed intervention and/or asset recovery. Since inception through June 30, 2014, none of the loans in Salus' portfolio have been delinquent.

Salus looks to create partnerships with borrowers that may not qualify for traditional bank financing because of their size, historical performance, geography or complexity of their situation. Salus' loans are used across a range of industries for growth capital, general working capital or seasonal needs, acquisitions or opportunistic situations, trade

finance, turnarounds, dividend recaps, refinancing and debtor-in-possession financing.

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Highlights for the Fiscal 2014 Quarter and the Fiscal 2014 Nine Months

Significant Transactions and Activity

During the Fiscal 2014 Quarter and the Fiscal 2014 Nine Months, our most significant activity included the following:

Consumer Products segment

- In December 2013, Spectrum Brands amended a senior secured term loan, issuing two tranches maturing September 4, 2019, which provide for borrowings in aggregate principal amounts of $215.0 million and €225.0 million. The proceeds from the amendment were used to refinance a portion of the term loan which was scheduled to mature December 17, 2019 and had an aggregate amount outstanding of $513.3 million prior to refinancing.
- In January 2014, Spectrum Brands completed the $35.8 million acquisition of The Liquid Fence Company, Inc. ("Liquid Fence"), a producer of animal repellents.

Insurance segment

- In December 2013, FGL announced an initial public offering of 9,750 thousand shares of common stock at a price to the public of $17 per share. The shares began trading on the New York Stock Exchange on December 13, 2013 under the ticker symbol "FGL". FGL also granted the underwriters an option to purchase an additional 1,463 thousand shares of common stock that was subsequently exercised. HGI was not a selling shareholder in the offering. Subsequent to the offering HGI held 47,000 thousand shares of FGL's outstanding common stock, representing an 80.4% interest.
- In December 2013, Front Street Re (Cayman) Ltd. ("Front Street Cayman"), a wholly-owned indirect subsidiary of HGI, closed a reinsurance treaty with Bankers Life Insurance Company. Under the terms of the treaty, Bankers Life Insurance Company ceded approximately $153.0 million of its annuity business to Front Street Cayman, on a funds withheld basis.

Asset Management segment

- Salus originated $17.5 million of new asset-backed loan commitments in the Fiscal 2014 Quarter. Salus, together with its affiliated co-lenders FGL and Front Street, had $724.3 million of loans outstanding as of June 30, 2014, net of allowance for credit losses of $6.7 million.
- On April 3, 2014, EIC an investment manager specializing in direct lending to companies in the global energy and infrastructure sectors, and a subsidiary of FIAM, announced its launch.
- In May 2014, FIAM acquired a 17% and controlling interest in CorAmerica, a commercial real estate investment firm.

Energy segment

- Subsequent to a one year exemption to Rule 4-10(c)(4) of Regulation S-X granted by the SEC expiring, our Energy segment recorded impairments to its oil and natural gas properties of $81.0 million during the second fiscal 2014 quarter, based on the ceiling test limitation under full cost method of accounting. The impairments primarily resulted from differences in the oil and natural gas prices utilized in the purchase price allocation at the acquisition date of Compass (amongst other things, market prices based on NYMEX futures) and the prices used in the ceiling test calculation (based on the simple average spot price for the trailing twelve month period). Compass did not recognize any further impairment under the ceiling test to its proved oil and natural gas properties for the three months ended June 30, 2014.

Corporate and Other segment

- In January 2014, the Company issued $200.0 million aggregate principal amount of 7.75% senior unsecured notes due 2022 (the "7.75% Notes"). The 7.75% Notes were priced at par plus accrued interest from January 21, 2014.

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- In May 2014, HGI exercised its option to convert all but one of its issued and outstanding Series A Participating Convertible Preferred Stock (“Series A Preferred Shares") and all of its issued and outstanding Series A-2 Participating Convertible Preferred Stock (“Series A-2 Preferred Shares", together with the Series A Preferred Shares, the "Preferred Stock") into common stock of the Company. The Company issued an aggregate of 59,133,819 shares of common stock pursuant to the conversion option, in exchange for 279,999 shares of Series A Preferred Shares, and 94,985 shares of Series A-2 Preferred Shares. The remaining Series A Preferred Shares will not be entitled to receive any dividends or distributions, and remains to preserve certain governance rights as set forth in the certificate of designation.
- Also in May 2014, HGI commenced, and successfully completed, an offer (the “Exchange Offer”) to exchange $320.6 million of its outstanding Senior Secured Notes for up to $350.0 million aggregate principal amount of new 7.750% Senior Notes due 2022 ("Additional 7.75% Notes”). Concurrent with the Exchange Offer, HGI solicited the holders of its 7.875% Senior Secured Notes due 2019 (the “Senior Secured Notes”) to amend (the “Proposed Amendments”) the indenture governing the Senior Secured Notes (the “Secured Indenture”) to provide the Company with, among other things, greater flexibility to repurchase or redeem its outstanding common stock.
- Lastly, also in May 2014, HGI acquired a controlling interest in Frederick's of Hollywood, Inc. ("FOH",) a retailer of women's apparel and related products under its proprietary Frederick's of Hollywood® brand.

Key financial highlights

- Diluted net income attributable to common and participating preferred stockholders increased to $0.28 per diluted common share attributable to controlling interest ($0.28 basic) in the Fiscal 2014 Quarter, compared to diluted net income attributable to common and participating preferred stockholders of $0.25 per diluted common share attributable to controlling interest ($0.45 basic), in the Fiscal 2013 Quarter.
- We ended the quarter with corporate cash and investments of approximately $417.1 million (held at HGI and HGI Funding, LLC).
- Our Consumer Products segment’s operating profit for the Fiscal 2014 Quarter increased $33.0 million, or 28.5%, to $148.7 million from $115.7 million for the Fiscal 2013 Quarter. Our Consumer Products segment’s adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”) increased by $13.8 million, or 7.3%, to $202.3 million versus the Fiscal 2013 Quarter primarily due to higher sales of hardware and home improvement products, home and garden control products, and batteries and appliances. Adjusted EBITDA margin represented 17.9% of sales as compared to 17.3% in the Fiscal 2013 Quarter. See Non-GAAP measures below for more details.
- Our Insurance segment’s operating income for the Fiscal 2014 Quarter increased $25.3 million, to $108.6 million from an operating income of $83.3 million for the Fiscal 2013 Quarter, primarily due to higher investment yields and favorable acquisition cost amortization in the Insurance segment. Our Insurance segment’s adjusted net income (“Insurance AOI”) increased by $20.9 million, or 118.8%, to $38.5 million versus $17.6 million for the Fiscal 2013 Quarter, primarily due to favorable mortality experience in the immediate annuity product line, favorable deferred acquisition cost amortization and the additional reserves recognized in the immediate annuity product line, and project related expenses that were incurred in the Fiscal 2013 Quarter.
- Our Energy segment’s oil and natural gas revenues for the Fiscal 2014 Quarter decreased $0.2 million to $37.6 million. Operating income for the Fiscal 2014 Quarter was $8.6 million, an increase of $3.8 million from the Fiscal 2013 Quarter, that was mostly due to lower depletion costs in the Fiscal 2014 Quarter. The Energy segment’s adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA-Energy") for the Fiscal 2014 Quarter was $15.3 million, a decrease of $0.8 million from the Fiscal 2013 Quarter. For the Fiscal 2014 Quarter, the Energy segment's production was 103 MBbl of oil, 125 MBbl of natural gas liquids and 5,240 Mmcf of natural gas, as compared to 119 MBbl of oil, 126 MBbl of natural gas liquids and 5,953 Mmcf of natural gas for the Fiscal 2013 Quarter.
- Our Asset Management segment contributed approximately $11.3 million to our consolidated revenues for the Fiscal 2014 Quarter from the operations of Salus and Five Island together, gross of revenue from affiliated entities, an increase of $4.2 million over the Fiscal 2013 Quarter, primarily due to higher levels of average assets under management as compared to the Fiscal 2013 Quarter. The Asset Management segment's operating income for the Fiscal 2014 Quarter increased $0.7 million from the Fiscal 2013 Quarter to $3.1 million,

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resulting from the offset between the higher revenue previously discussed, and increased overhead to support growth. Through the nine months ended June 30, 2014, we received dividends of approximately $85.1 million from our respective subsidiaries, including $49.1 million, $26.3 million and $9.7 million from FGL, Spectrum Brands and Compass, respectively, which does not give effect to the net impact from interest payments made by HGI on behalf of HGI's Energy segment with respect to certain intercompany notes. The FGL dividend of $49.1 million includes a special dividend of $43.0 million paid out of the proceeds from FGL's initial public offering in December 2013.

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Results of Operations

Fiscal Quarter and Fiscal Nine Months Ended June 30, 2014 Compared to Fiscal Quarter and Fiscal Nine Months Ended June 30, 2013

Presented below is a table that summarizes our results of operations and compares the amount of the change between the fiscal periods (in millions):

	Fiscal Quarter			Fiscal Nine Months		
	2014	2013	Increase / (Decrease)	2014	2013	Increase / (Decrease)
Revenues:						
Consumer Products	$1,128.5	$1,089.8	$38.7	$3,250.8	$2,947.8	$303.0
Insurance	419.5	279.7	139.8	1,066.7	1,025.6	41.1
Energy	37.6	37.8	(0.2)	112.3	54.5	57.8
Asset Management	11.3	7.1	4.2	25.6	20.8	4.8
Intersegment elimination	(2.2)	(5.2)	3.0	(9.5)	(6.1)	(3.4)
Consolidated segment revenues	1,594.7	1,409.2	185.5	4,445.9	4,042.6	403.3
Corporate and Other	4.7	—	4.7	4.7	—	4.7
Total revenues						