HARBINGER GROUP INC.
Form 10-Q
February 07, 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 December 31, 2013

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 (Address of principal executive offices)	10022 (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 145,273,065 shares of the registrant’s common stock outstanding as of February 3, 2014.

HARBINGER GROUP INC.
TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements:	3
Condensed Consolidated Balance Sheets as of December 31, 2013 (Unaudited) and September 30, 2013	3
Condensed Consolidated Statements of Operations for the three months ended December 31, 2013 and December 30, 2012 (Unaudited)	4
Condensed Consolidated Statements of Comprehensive Income for the three months ended December 31, 2013 and December 30, 2012 (Unaudited)	5
Condensed Consolidated Statements of Cash Flows for the three months ended December 31, 2013 and December 30, 2012 (Unaudited)	6
Notes to Condensed Consolidated Financial Statements (Unaudited)	7
(1) Description of Business	7
(2) Basis of Presentation, Significant Accounting Policies and Practices and Recent Accounting Pronouncements	8
(3) Acquisitions	10
(4) Investments	12
(5) Derivative Financial Instruments	19
(6) Fair Value of Financial Instruments	24
(7) Goodwill and Intangibles, including deferred acquisition costs and value of business acquired, net	32
(8) Debt	34
(9) Defined Benefit Plans	35
(10) Reinsurance	35
(11) Stock Compensation	37
(12) Income Taxes	40
(13) Earnings Per Share	41
(14) Commitments and Contingencies	42
(15) Related Party Transactions	44
(16) Segment Data	45
(17) Consolidating Financial Information	46
(18) Subsequent Events	50
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	51
Item 3. Quantitative and Qualitative Disclosures about Market Risk	82
Item 4. Controls and Procedures	88
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	94
Item 1A. Risk Factors	94
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	94
Item 3. Defaults Upon Senior Securities	95
Item 4. Mine Safety Disclosures	95
Item 5. Other Information	95
Item 6. Exhibits	96

Table of Contents

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

	December 31, 2013 (Unaudited)	September 30, 2013
ASSETS		
Investments:		
Fixed maturities	$16,086.6	$15,300.0
Equity securities	375.9	352.5
Derivatives	294.5	221.8
Asset-based loans	794.0	560.4
Other invested assets	117.3	31.2
Total investments	17,668.3	16,465.9
Cash and cash equivalents	1,293.8	1,899.7
Receivables, net	645.5	611.3
Inventories, net	683.3	632.9
Accrued investment income	160.5	161.2
Reinsurance recoverable	2,389.0	2,363.7
Deferred tax assets	290.1	293.4
Properties, including oil and natural gas properties, net	1,009.7	993.3
Goodwill	1,476.2	1,476.7
Intangibles, including DAC and VOBA, net	2,749.7	2,729.1
Other assets	397.9	281.6
Total assets	$28,764.0	$27,908.8
LIABILITIES AND EQUITY		
Insurance reserves:		
Contractholder funds	$15,519.7	$15,248.2
Future policy benefits	3,695.8	3,556.8
Liability for policy and contract claims	60.3	51.5
Funds withheld from reinsurers	39.7	39.4
Total insurance reserves	19,315.5	18,895.9
Debt	5,165.9	4,896.1
Accounts payable and other current liabilities	891.8	1,012.7
Equity conversion feature of preferred stock	378.0	330.8
Employee benefit obligations	94.9	99.6
Deferred tax liabilities	491.9	492.8
Other liabilities	810.9	718.0
Total liabilities	27,148.9	26,445.9
Commitments and contingencies		
Temporary equity:		
Redeemable preferred stock	333.4	329.4

Harbinger Group Inc. stockholders' equity:		
Common stock	1.5	1.4
Additional paid-in capital	770.4	828.0
Accumulated deficit	(231.6)	(192.4)
Accumulated other comprehensive income	61.7	87.7
Total Harbinger Group Inc. stockholders' equity	602.0	724.7
Noncontrolling interest	679.7	408.8
Total permanent equity	1,281.7	1,133.5
Total liabilities and equity	$28,764.0	$27,908.8

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Three months ended	
	December 31, 2013	December 30, 2012
	(Unaudited)	
Revenues:		
Net consumer product sales	$1,100.6	$870.3
Oil and natural gas	35.5	—
Insurance premiums	13.9	13.8
Net investment income	201.2	178.0
Net investment gains	141.9	146.5
Insurance and investment product fees and other	16.9	13.7
Total revenues	1,510.0	1,222.3
Operating costs and expenses:		
Consumer products cost of goods sold	719.4	582.1
Oil and natural gas direct operating costs	16.1	—
Benefits and other changes in policy reserves	234.7	83.6
Selling, acquisition, operating and general expenses	317.1	254.6
Amortization of intangibles	43.4	86.6
Total operating costs and expenses	1,330.7	1,006.9
Operating income	179.3	215.4
Interest expense	(84.0)	(143.1)
(Loss) gain from the change in the fair value of the equity conversion feature of preferred stock	(47.2)	68.9
Gain on contingent purchase price reduction	0.5	—
Other expense, net	(11.9)	(8.7)
Income from continuing operations before income taxes	36.7	132.5
Income tax expense	38.3	64.4
Net (loss) income	(1.6)	68.1
Less: Net income (loss) attributable to noncontrolling interest	25.2	(6.0)
Net (loss) income attributable to controlling interest	(26.8)	74.1
Less: Preferred stock dividends and accretion	12.2	12.1
Net (loss) income attributable to common and participating preferred stockholders	$(39.0)	$62.0
Net (loss) income per common share attributable to controlling interest:		
Basic	$(0.28)	$0.31
Diluted	$(0.28)	$0.03

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Three months ended	
	December 31, 2013	December 30, 2012
	(Unaudited)	
Net (loss) income	$(1.6)	$68.1
Other comprehensive (loss) income		
Foreign currency translation (losses) gains	(0.3)	2.7
Net unrealized gain on derivative instruments		
Changes in derivative instruments before reclassification adjustment	0.9	—
Net reclassification adjustment for losses included in net income	0.9	0.4
Changes in derivative instruments after reclassification adjustment	1.8	0.4
Changes in deferred income tax asset/liability	(0.5)	—
Deferred tax valuation allowance adjustments	0.1	(0.1)
Net unrealized gain on derivative instruments	1.4	0.3
Actuarial adjustments to pension plans		
Changes in actuarial adjustments before reclassification adjustment	(0.4)	(0.7)
Net reclassification adjustment for losses included in cost of goods sold	0.1	0.3
Net reclassification adjustment for losses included in selling and general and administrative expenses	0.3	0.1
Net actuarial adjustments to pension plans	—	(0.3)
Unrealized investment (losses):		
Changes in unrealized investment (losses) gains before reclassification adjustment	(9.9)	126.3
Net reclassification adjustment for gains included in net income	(8.1)	(172.0)
Changes in unrealized investment (losses) after reclassification adjustment	(18.0)	(45.7)
Adjustments to intangible assets	7.9	28.0
Changes in deferred income tax asset/liability	3.6	6.2
Net unrealized (loss) on investments	(6.5)	(11.5)
Net change to derive comprehensive (loss) for the period	(5.4)	(8.8)
Comprehensive (loss) income	(7.0)	59.3
Less: Comprehensive income (loss) attributable to the noncontrolling interest:		
Net income (loss)	25.2	(6.0)
Other comprehensive (loss) income	(0.9)	1.3
	24.3	(4.7)
Comprehensive (loss) income attributable to the controlling interest	$(31.3)	$64.0

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

	Three months ended	
	December 31, 2013	December 30, 2012
	(Unaudited)	
Cash flows from operating activities:		
Net (loss) income	$(1.6)	$68.1
Adjustments to reconcile net (loss) income to operating cash flows:		
Depreciation of properties	30.3	11.6
Amortization of intangibles	43.4	86.6
Stock-based compensation	23.4	6.5
Amortization of debt issuance costs	5.0	2.6
Amortization of debt discount	0.6	0.2
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	2.5	129.7
Gain on contingent purchase price reduction	(0.5)	—
Interest credited/index credits to contractholder account balances	194.3	55.9
Collateral received (paid)	2.7	—
Amortization of fixed maturity discounts and premiums	(14.8)	13.2
Net recognized gains on investments and derivatives	(88.3)	(207.8)
Charges assessed to contractholders for mortality and administration	(9.8)	(6.8)
Deferred policy acquisition costs	(52.6)	(35.7)
Non-cash increase to cost of goods sold due to the sale of HHI Business acquisition inventory	—	5.2
Non-cash restructuring and related charges	1.4	4.9
Changes in operating assets and liabilities:	(234.6)	(308.0)
Net change in cash due to operating activities	(89.4)	(155.3)
Cash flows from investing activities:		
Proceeds from investments sold, matured or repaid	1,820.3	3,054.7
Cost of investments acquired	(2,728.2)	(3,440.4)
Acquisitions, net of cash acquired	—	(1,295.9)
Asset-based loans originated, net	(110.4)	(26.2)
Capital expenditures	(21.0)	(10.7)
Other investing activities, net	—	(100.0)
Net change in cash due to investing activities	(1,039.3)	(1,818.5)
Cash flows from financing activities:		
Proceeds from issuance of new debt	537.9	2,585.0
Repayment of debt, including tender and call premiums	(513.8)	(917.1)
Revolving credit facility activity	97.3	32.0
Debt issuance costs	(4.7)	(62.8)
Purchases of subsidiary stock, net	(4.5)	(16.0)
Contractholder account deposits	774.4	491.5
Contractholder account withdrawals	(494.8)	(475.6)
Dividend paid by subsidiary to noncontrolling interest	(5.5)	(1.0)
Dividends paid on preferred stock	(8.2)	(8.3)
Share based award tax withholding payments	(31.2)	(20.2)

Proceeds from initial public offering of subsidiary shares, less costs of issuance	175.9	—
Other financing activities, net	0.5	—
Net change in cash due to financing activities	523.3	1,607.5
Effect of exchange rate changes on cash and cash equivalents	(0.5)	(0.7)
Net decrease in cash and cash equivalents	(605.9)	(367.0)
Cash and cash equivalents at beginning of period	1,899.7	1,470.7
Cash and cash equivalents at end of period	$1,293.8	$1,103.7

See accompanying notes to condensed consolidated financial statements.

Table of Contents

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

Description of the Business

Harbinger Group Inc. (“HGI” and, collectively with its respective subsidiaries, the “Company”) is a diversified holding company, the outstanding common stock of which is 55.4% owned, collectively, by Harbinger Capital Partners Master Fund I, Ltd. (the “Master Fund”), Global Opportunities Breakaway Ltd. and Harbinger Capital Partners Special Situations Fund, L.P. (together, the “HCP Stockholders”), not giving effect to the conversion rights of the Company’s Series A Participating Convertible Preferred Stock (the “Series A Preferred Stock”) or the Series A-2 Participating Convertible Preferred Stock (the “Series A-2 Preferred Stock”, together the “Preferred Stock”). Such common stock ownership by the HCP Stockholders represents a voting interest of 41.6% in relation to the existing voting rights of all HGI’s common and preferred stockholders. HGI’s shares of common stock trade on the New York Stock Exchange (“NYSE”) under the symbol “HRG.”

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

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 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 80.7% interest.

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.

Lastly, 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.

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) Financial Services. For the results of operations by segment, and other segment data, see Note 16, Segment Data.

Table of Contents

(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 filed with the SEC on November 27, 2013 (the "Form 10-K"). The results of operations for the three months ended December 31, 2013 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 December 31, 2013, the non-controlling interest component of total equity represents the 41.4% share of Spectrum Brands, the 19.3% of FGL, the 14.3% of Salus, and the 2.1% share of Zap.Com not owned by HGI.

Oil and natural gas properties
Ceiling Test Exemption
Pursuant to Rule 4-10(c)(4) of Regulation S-X, our equity investment in an oil and natural gas joint venture (the "EXCO/HGI JV") was required to compute its ceiling test using the simple average spot price for the trailing twelve month period for oil and natural gas as of December 31, 2013. The computation resulted in the carrying costs of the EXCO/HGI JV's unamortized proved oil and natural gas properties, exceeding the December 31, 2013 ceiling test limitation by approximately $184.8. Given the short passage of time between closing of these acquisitions and the required ceiling test computation, HGI requested, and received, an exemption from the SEC to exclude the acquisition of these oil and natural gas properties from the ceiling test assessments for a period of twelve months following the corresponding acquisition dates. The exemption will expire on March 31, 2014 and at that time, the EXCO/HGI JV will be required to record any impairment to reflect the ceiling test limitation pursuant to Rule 4-10(c)(4) of Regulation S-X.
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 EXCO/HGI JV's pricing for these acquisitions are based on models which incorporate, among other things, market prices based on NYMEX futures as of the acquisition date. The EXCO/HGI JV believes the NYMEX futures contracts reflects an independent proxy for fair value.
If factors were to arise that would negatively impact the fair value of the acquired properties and were deemed to be other than a temporary trend, the EXCO/HGI JV would assess these acquisitions for impairment during the requested exemption period. Further, if the EXCO/HGI JV cannot demonstrate that fair value exceeds the calculated ceiling test limitation during the requested exemption periods prior to issuance of its financial statements, the EXCO/HGI JV is required to recognize impairment related to these acquisitions.
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

Table of Contents

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, FGL Insurance re-domesticated from Maryland to Iowa. After re-domestication, Fidelity and Guaranty Life Insurance Company's ("FGL Insurance") elected to apply Iowa-prescribed accounting practices that permit Iowa-domiciled insurers to report equity call options used to economically hedge 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 decrease to statutory capital and surplus. 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 prescribed and permitted statutory accounting practice will have no impact on the Company’s consolidated financial statements which are prepared in accordance with U. S. GAAP.

As of December 31, 2013 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 Re reflects the effect of permitted practices Raven Re received. Raven Re is also permitted to follow Iowa prescribed practice statutory accounting for its reserves on reinsurance assumed from FGL Insurance. Without such permitted statutory accounting Raven Re’s statutory capital and surplus would be negative and its risk-based capital would fall below the minimum regulatory requirements.

Change in Accounting Method

During the quarter ended June 30, 2013, the Company changed its method of presenting tax withholdings for share-based payment awards paid to a taxing authority on behalf of an employee from an operating activity to a financing activity within its statements of cash flows. The Company believes that the newly adopted accounting principle is preferable in the circumstances because the predominant characteristic of such transaction is a financing activity.

As a result of the change in accounting method, the Company had the following reclassifications for the three months ended December 30, 2012:

	Three months ended December 30, 2012

Net change in cash due to operating activities	$20.2
Net change in cash due to financing activities	$(20.2)

9

Table of Contents

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 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 new accounting guidance 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.

(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 of the residential hardware and home improvement business (the “HHI Business”) from Stanley Black & Decker, Inc. (“Stanley Black & Decker”), (the “Hardware Acquisition”). 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.

EXCO/HGI JV

On February 14, 2013, EXCO Resources, Inc. ("EXCO") and HGI formed the EXCO/HGI JV to own and operate conventional oil and natural gas properties. EXCO contributed to the EXCO/HGI JV its conventional assets in and

Table of Contents

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 the Partnership of 25.5% and 74.5% respectively.

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 the EXCO/HGI JV were completed on October 1, 2012 and the results of the HHI Business and the EXCO/HGI JV had been included in the full three three months ended December 30, 2012.

	Three months ended December 30, 2012
Revenues:	
Reported revenues	$1,222.3
HHI adjustment	191.8
EXCO/HGI JV adjustment	36.5
Pro forma revenues	$1,450.6
Net income:	
Reported net income	$68.1
HHI adjustment	4.9
EXCO/HGI JV adjustment	0.6
Pro forma net income	$73.6
Basic net income per common share attributable to controlling interest:	
Reported net income per common share	$0.31
HHI adjustment	0.04
EXCO/HGI JV adjustment	—
Pro forma net income per common share	$0.35
Diluted net income per common share attributable to controlling interest:	
Reported diluted net income per common share	$0.03
HHI adjustment	0.02
EXCO/HGI JV adjustment	—
Pro forma diluted net income per common share	$0.05

Table of Contents

(4) Investments

The Company’s consolidated investments are summarized as follows:

	December 31, 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	$1,590.7	$19.1	$(8.0)	$1,601.8	$1,601.8
Commercial mortgage-backed securities	422.6	25.2	(3.2)	444.6	444.6
Corporates	9,963.8	272.1	(189.3)	10,046.6	10,046.6
Hybrids	400.5	20.8	(3.2)	418.1	418.1
Municipals	1,121.2	45.2	(45.0)	1,121.4	1,121.4
Agency residential mortgage-backed securities	88.9	2.2	(0.1)	91.0	91.0
Non-agency residential mortgage-backed securities	1,564.1	99.2	(11.3)	1,652.0	1,652.0
U.S. Government	711.5	5.8	(6.2)	711.1	711.1
Total fixed maturities	15,863.3	489.6	(266.3)	16,086.6	16,086.6
Equity securities					
Available-for-sale	293.9	6.8	(13.8)	286.9	286.9
Held for trading	124.4	6.0	(41.4)	89.0	89.0
Total equity securities	418.3	12.8	(55.2)	375.9	375.9
Derivatives	148.3	147.0	(0.8)	294.5	294.5
Asset-based loans	794.0	—	—	794.0	794.0
Other invested assets					
Policy loans and other invested assets	117.3	—	—	117.3	117.3
Total investments	$17,341.2	$649.4	$(322.3)	$17,668.3	$17,668.3

Table of Contents

	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
Policy loans and 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 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 December 31, 2013 and September 30, 2013, respectively. The non-agency residential mortgage-backed securities unrealized gains and losses represent the difference between book value and fair value on securities that were previously impaired. There have been no impairments or write downs on any of the 2013 purchased non-agency residential mortgage-backed securities.

Securities held on deposit with various state regulatory authorities had a fair value of $13,727.8 and $19.4 at December 31, 2013 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 $591.8 and $604.9 at December 31, 2013 and September 30, 2013, respectively.

Table of Contents

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.

	December 31, 2013	
	Amortized Cost	Fair Value
Corporates, Non-structured Hybrids, Municipal and U.S. Government securities:		
Due in one year or less	$345.5	$348.1
Due after one year through five years	3,059.2	3,133.2
Due after five years through ten years	3,315.1	3,332.1
Due after ten years	5,444.4	5,448.3
Subtotal	12,164.2	12,261.7
Other securities which provide for periodic payments:		
Asset-backed securities	1,590.7	1,601.8
Commercial-mortgage-backed securities	422.6	444.6
Structured hybrids	32.8	35.5
Agency residential mortgage-backed securities	88.9	91.0
Non-agency residential mortgage-backed securities	1,564.1	1,652.0
Total fixed maturity available-for-sale securities	$15,863.3	$16,086.6

Securities in an Unrealized Loss Position

FGL's available-for-sale securities with unrealized losses are reviewed 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 December 31, 2013.

Table of Contents

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

	December 31, 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	$488.5	$(6.8)	$127.5	$(1.2)	$616.0	$(8.0)
Commercial-mortgage-backed securities	29.4	(0.5)	5.9	(2.7)	35.3	(3.2)
Corporates	3,355.4	(163.0)	477.9	(26.3)	3,833.3	(189.3)
Equities	131.7	(13.8)	6.9	—	138.6	(13.8)
Hybrids	106.3	(3.1)	8.3	(0.1)	114.6	(3.2)
Municipals	478.2	(28.4)	168.1	(16.6)	646.3	(45.0)
Agency residential mortgage-backed securities	11.9	(0.1)	0.5	—	12.4	(0.1)
Non-agency residential mortgage-backed securities	354.5	(10.6)	55.2	(0.7)	409.7	(11.3)
U.S. Government	338.0	(6.2)	—	—	338.0	(6.2)
Total available-for-sale securities	$5,293.9	$(232.5)	$850.3	$(47.6)	$6,144.2	$(280.1)
Total number of available-for-sale securities in an unrealized loss position		634		109		743

	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 December 31, 2013 and September 30, 2013, securities in an unrealized loss position were primarily concentrated in investment grade corporate debt instruments and municipals. Total unrealized losses were $280.1 and $263.9 at December 31, 2013 and September 30, 2013, respectively.
At December 31, 2013 and September 30, 2013, securities with a fair value of $77.1 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.

Table of Contents

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 months ended December 31, 2013, and December 30, 2012, for which a portion of the other-than-temporary impairment was recognized in AOCI:

	Three months ended	
	December 31, 2013	December 30, 2012
Beginning balance	$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

For the three months ended December 31, 2013, FGL recognized insignificant impairment losses in operations and had an amortized cost of $0.2 million and a fair value of $0.2 million at the time of impairment. For the three months ended December 30, 2012, FGL recognized an impairment loss in operations totaling $0.5, including credit impairments of $0.2, and change-of-intent impairments of $0.3 and had an amortized cost of $1.6 and a fair value of $1.1 at December 30, 2012.

Asset-based Loans

Salus' portfolio of asset-based loans receivable, included in "Asset-based loans" in the Condensed Consolidated Balance Sheets as of December 31, 2013 and September 30, 2013, consisted of the following:

	December 31, 2013	September 30, 2013
Asset-based loans, by major industry:		
Apparel	$235.7	$252.9
Jewelry	117.1	125.8
Sporting Goods	16.3	25.1
Manufacturing	55.8	34.3
Transportation	42.5	85.7
Electronics	250.0	—
Other	83.6	41.8
Total asset-based loans	801.0	565.6
Less: Allowance for credit losses	7.0	5.2
Total asset-based loans, net	$794.0	$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 months ended December 31, 2013 and December 30, 2012:

	Three months ended	
	December 31, 2013	December 30, 2012
Allowance for credit losses:		
Balance at beginning of period	$5.2	$1.4
Provision for credit losses	1.8	1.2
Balance at end of period	$7.0	$2.6

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 December 31, 2013 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

16

Table of Contents

restructuring. As of December 31, 2013 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
December 31, 2013	$204.7	$338.8	$257.5	$—	$801.0
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	
	December 31, 2013	December 30, 2012
Fixed maturity available-for-sale securities	$191.8	$167.6
Equity available-for-sale securities	4.5	4.7
Policy loans	0.2	0.3
Invested cash and short-term investments	0.1	0.8
Other investments	8.2	8.7
Gross investment income	204.8	182.1
External investment expense	(3.6)	(4.1)
Net investment income	$201.2	$178.0

Table of Contents

Net investment gains

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

	Three months ended	
	December 31, 2013	December 30, 2012
Net realized gains before other-than-temporary impairments	$9.8	$172.5
Gross other-than-temporary impairments	—	(0.5)
Net realized gains on fixed maturity available-for-sale securities	9.8	172.0
Realized gains on equity securities	5.4	—
Net realized gains on securities	15.2	172.0
Realized gains on certain derivative instruments	66.8	15.6
Unrealized gains (losses) on certain derivative instruments	60.6	(41.2)
Change in fair value of derivatives	127.4	(25.6)
Realized (losses) gains on other invested assets	(0.7)	0.1
Net investment gains	$141.9	$146.5

For the three months ended December 31, 2013, principal repayments, calls, tenders, and proceeds from the sale of fixed maturity available-for-sale securities totaled $1,705.9, gross gains on such sales totaled $21.8 and gross losses totaled $12.0, respectively. The proceeds from the sale of fixed maturity available-for sale securities exclude maturities and repayments for the three months ended December 31, 2013.

For the three months ended December 30, 2012, principal repayments, calls, tenders, and proceeds from the sale of fixed maturity available-for-sale securities totaled $2,415.1, gross gains on such sales totaled $178.0 and gross losses totaled $0.5, respectively. The proceeds from the sale of fixed maturity available-for sale securities exclude maturities and repayments for the three months ended December 30, 2012.

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

	Three months ended	
	December 31, 2013	December 30, 2012
Proceeds from investments sold, matured or repaid:		
Available-for-sale	$1,705.9	$2,913.4
Trading (acquired for holding)	—	91.0
Derivatives and other	114.4	50.3
	$1,820.3	$3,054.7
Cost of investments acquired:		
Available-for-sale	$(2,598.5)	$(3,395.1)
Trading (acquired for holding)	(4.4)	—
Derivatives and other	(125.3)	(45.3)
	$(2,728.2)	$(3,440.4)

Concentrations of Financial Instruments

As of December 31, 2013 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 $1,974.0, or 11.5% and $1,892.1, or 11.7%, of the invested assets portfolio, respectively. FGL's holdings in this industry includes investments in 82 different issuers with the top ten investments accounting for 37.8% of the total holdings in this industry. As of December 31, 2013 and September 30, 2013, the Company had investments in 34 and 19 issuers that exceeded 10% of the Company's stockholders' equity with a fair value of $2,925.5 and $1,983.7, or 16.9% and 12.0% of the invested assets portfolio, respectively. Additionally, FGL's largest concentration in any single issuer as of December 31, 2013 and September 30, 2013, had a fair value of $140.5 and $150.7, or 1.0% of FGL's invested assets portfolio, respectively.

Table of Contents

(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	December 31, 2013	September 30, 2013
Derivatives designated as hedging instruments:			
Commodity swap and option agreements	Receivables, net	$1.3	$0.4
Commodity swap and option agreements	Other assets	0.3	—
Foreign exchange forward agreements	Receivables, net	3.0	1.7
Total asset derivatives designated as hedging instruments		4.6	2.1
Derivatives not designated as hedging instruments:			
Commodity contracts	Receivables, net	0.4	3.7
Call options	Derivatives	294.1	221.8
Futures contracts	Derivatives	0.4	—
Foreign exchange contracts	Receivables, net	0.2	0.1
Total asset derivatives		$299.7	$227.7

Liability Derivatives	Classification	December 31, 2013	September 30, 2013
Derivatives designated as hedging instruments:			
Commodity contracts	Accounts payable and other current liabilities	$—	$0.5
Foreign exchange forward agreements	Accounts payable and other current liabilities	5.2	4.6
Foreign exchange contracts	Other liabilities	0.3	0.1
Total liability derivatives designated as hedging instruments		5.5	5.2
Derivatives not designated as hedging instruments:			
Commodity contracts	Other liabilities	2.2	1.9
FIA embedded derivative	Contractholder funds	1,644.7	1,544.4
Futures contracts	Other liabilities	—	1.0
Foreign exchange forward contracts	Accounts payable and other current liabilities	3.6	5.3
Equity conversion feature of preferred stock	Equity conversion feature of preferred stock	378.0	330.8
Total liability derivatives		$2,034.0	$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.

Table of Contents

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 months ended December 31, 2013 and December 30, 2012:

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	December 31, 2013	December 30, 2012	December 31, 2013	December 30, 2012	December 31, 2013	December 30, 2012	
Commodity contracts	$1.1	$(0.2)	$(0.3)	$(0.1)	$0.2	$—	Consumer products cost of goods sold
Foreign exchange contracts	0.2	0.5	0.1	0.1	—	—	Net consumer products sales
Foreign exchange contracts	(0.4)	(0.4)	(0.7)	(0.5)	—	—	Consumer products cost of goods sold
Total	$0.9	$(0.1)	$(0.9)	$(0.5)	$0.2	$—	

Fair Value Contracts and Other

For derivative instruments that are used to economically hedge the fair value of Spectrum Brands' third party and intercompany foreign currency payments, commodity purchases and interest rate payments, and the equity conversion feature of the Company's Preferred Stock, the gain (loss) associated with the derivative contract is recognized in earnings in the period of change. 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 months ended December 31, 2013 and December 30, 2012 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		
	December 31, 2013	December 30, 2012	
Equity conversion feature of preferred stock	$(47.2)	$68.9	(Loss) gain from the change in the fair value of the equity conversion feature of preferred stock
Oil and natural gas commodity contracts	(3.4)	—	Other expense, net
Commodity contracts	(0.1)	—	Consumer products cost of goods sold
Foreign exchange contracts	0.8	(4.1)	Other expense, net
Call options	114.3	(20.9)	Net investment gains
Futures contracts	13.1	(4.7)	Net investment gains
FIA embedded derivatives	100.3	33.8	Benefits and other changes in policy reserves

Total	$177.8	$73.0

Table of Contents

Additional Disclosures

Cash Flow Hedges

When 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 December 31, 2013 and September 30, 2013, Spectrum Brands did not have any interest rate swaps outstanding.

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 product sales" or purchase price variance in "Consumer products cost of goods sold." At December 31, 2013, Spectrum Brands had a series of foreign exchange derivative contracts outstanding through September 2015 with a contract value of $237.6. The derivative net loss on these contracts recorded in AOCI at December 31, 2013 was $1.2, net of tax benefit of $0.5 and noncontrolling interest of $0.8. At December 31, 2013, the portion of derivative net loss estimated to be reclassified from AOCI into earnings over the next twelve months is $1.0, 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 December 31, 2013, Spectrum Brands had a series of zinc swap contracts outstanding through December 2014 for 9 tons with a contract value of $17.3. At December 31, 2013, Spectrum Brands had a series of brass swap contracts outstanding through September 2014 for one ton with a contract value of $6.1. The derivative net gain on these contracts recorded in AOCI at December 31, 2013 was $0.7, net of tax expense of $0.1 and noncontrolling interest of $0.5. At December 31, 2013, the portion of derivative net gain estimated to be reclassified from AOCI into earnings over the next twelve months is $0.6, net of tax and noncontrolling interest.

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 December 31, 2013 and September 30, 2013, Spectrum Brands had $106.7 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 December 31, 2013, Spectrum Brands had a series of such swap contracts outstanding through May 2014 for 30 troy ounces with

Table of Contents

a contract value of $0.6. 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

The EXCO/HGI JV’s 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 the EXCO/HGI JV would realize if commodity prices increase. When prices for oil and natural gas are volatile, a significant portion of the effect of the EXCO/HGI JV’s derivative financial instrument management activities consists of non-cash income or expense due to changes in the fair value of its derivative financial instrument contracts. Cash losses or gains only arise from payments made or received on monthly settlements of contracts or if the EXCO/HGI JV terminates a contract prior to its expiration. The EXCO/HGI JV does not designate its derivative financial instruments as hedging instruments for financial accounting purposes and, as a result, the EXCO/HGI JV 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, the EXCO/HGI JV's derivative contract counterparties. Changes in the fair value of the EXCO/HGI JV's 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.

The EXCO/HGI JV's natural gas and oil commodity contract derivative instruments are comprised of swap contracts. Swap contracts allow the EXCO/HGI JV to receive a fixed price and pay a floating market price to the counterparty for the hedged commodity.

The following table presents EXCO/HGI JV's proportionate share of the volumes and fair value of the oil and natural gas derivative financial instruments as of December 31, 2013 (presented on a calendar-year basis) :

(in millions, except volumes and prices)	Volume Mmmbtus/Mbbls	Weighted average strike price per Mmbtu/Bbl	December 31, 2013
Natural gas:			
Swaps:			
2014	16,316.0	$4.15	$(0.7)
Total natural gas	16,316.0		$(0.7)
Oil:			
Swaps:			
2014	272.0	$91.87	$(1.0)
Total oil	272.0		$(1.0)
Total oil and natural gas derivatives			$(1.7)

At September 30, 2013, the EXCO/HGI JV 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 December 31, 2013, the average forward NYMEX oil prices per Bbl for the calendar year 2014 was $96.14, and the average forward NYMEX natural gas prices per Mmbtu for the calendar year 2014 was $4.17.

The EXCO/HGI JV's derivative financial instruments covered approximately 83.6% of production volumes for the three months ended December 31, 2013.

Credit Risk

Spectrum Brands is exposed to the risk of default by the counterparties with which Spectrum Brands transacts and generally does not require collateral or other security to support financial instruments subject to credit risk. Spectrum Brands monitors counterparty credit risk on an individual basis by periodically assessing each such counterparty’s credit rating exposure. The maximum loss due to credit risk equals the fair value of the gross asset derivatives that are concentrated with certain domestic and foreign financial institution counterparties. Spectrum Brands considers

Table of Contents

these exposures when measuring its credit reserve on its derivative assets, which was insignificant at December 31, 2013 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 both December 31, 2013 and September 30, 2013, Spectrum Brands had posted cash collateral of $0.5 related to such liability positions. In addition, at December 31, 2013 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.

The EXCO/HGI JV places derivative financial instruments with the financial institutions that are lenders under the EXCO/HGI JV Credit Agreement that it believes have high quality credit ratings. To mitigate risk of loss due to default, the EXCO/HGI JV 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:

		December 31, 2013				September 30, 2013			
Counterparty	Credit Rating (Moody's/S&P)	Notional Amount	Fair Value	Collateral	Net Credit Risk	Notional Amount	Fair Value	Collateral	Net Credit Risk
Merrill Lynch	NA/A	$2,157.9	$99.6	$45.1	$54.5	$2,037.8	$70.7	$—	$70.7
Deutsche Bank	A2/A	1,706.8	70.4	—	70.4	1,620.4	51.7	23.0	28.7
Morgan Stanley	A3/A	2,379.0	103.1	74.7	28.4	2,264.1	75.7	49.0	26.7
Royal Bank of Scotland	A3/A	245.3	16.9	—	16.9	364.3	20.3	—	20.3
Barclay's Bank	A2/A	117.8	4.1	—	4.1	120.8	3.4	—	3.4
		$6,606.8	$294.1	$119.8	$174.3	$6,407.4	$221.8	$72.0	$149.8

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 December 31, 2013 and September 30, 2013 counterparties posted $119.8 and $72.0 of collateral, respectively. 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 $174.3 and $149.8 at December 31, 2013 and September 30, 2013, respectively.

FGL held 1,190 and 1,693 futures contracts at December 31, 2013 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 $4.8 and $5.9 at December 31, 2013 and September 30, 2013, respectively.

Table of Contents

(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:

	December 31, 2013			
	Level 1	Level 2	Level 3	Fair Value
Assets				
Cash and cash equivalents (a)	$1,293.8	$—	$—	$1,293.8
Contingent purchase price reduction receivable	—	—	41.5	41.5
Derivatives:				
Foreign exchange forward agreements	—	3.2	—	3.2
Commodity swap and option agreements	—	2.0	—	2.0
Call options and futures contracts	—	294.5	—	294.5
Fixed maturity securities, available-for-sale:				
Asset-backed securities	—	1,592.0	9.8	1,601.8
Commercial mortgage-backed securities	—	438.6	6.0	444.6
Corporates	—	9,439.5	607.1	10,046.6
Hybrids	—	418.1	—	418.1
Municipals	—	1,087.1	34.3	1,121.4
Agency residential mortgage-backed securities	—	91.0	—	91.0
Non-agency residential mortgage-backed securities	—	1,652.0	—	1,652.0
U.S. Government	502.5	208.6	—	711.1
Equity securities:				
Available-for-sale	—	286.9	—	286.9
Trading	78.2	—	10.8	89.0
Funds withheld receivable	—	160.8	—	160.8
Total financial assets	$1,874.5	$15,674.3	$709.5	$18,258.3
Liabilities				
Derivatives:				
FIA embedded derivatives, included in contractholder funds	$—	$—	$1,644.7	$1,644.7
Front Street future policyholder benefit liability	—	—	149.9	149.9
Foreign exchange forward agreements	—	9.1	—	9.1
Commodity swap and option agreements	—	2.2	—	2.2
Equity conversion feature of preferred stock	—	—	378.0	378.0
Total financial liabilities	$—	$11.3	$2,172.6	$2,183.9

Table of Contents

	September 30, 2013			
	Level 1	Level 2	Level 3	Fair Value
Assets				
Cash and cash equivalents (a)	$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				
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 fair values of cash equivalents and equity investments set forth above are generally based on quoted or observed market prices.

(b) 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.

Valuation Methodologies

Fixed Maturity Securities & Equity Securities

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

the inputs described above may not be applicable. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants.

Table of Contents

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 December 31, 2013 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.

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. The fair value of futures contracts represents the cumulative unsettled variation margin (open trade equity net of cash settlements). Fair values for these instruments are determined externally by an independent actuarial firm using market-observable inputs, including interest rates, yield curve volatilities, and other factors. Credit risk related to the counterparty is considered when estimating the fair values of these derivatives. The fair value of the embedded derivatives in FGL’s FIA products are derived using market indices, pricing assumptions and historical data.

The EXCO/HGI JV 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 the EXCO/HGI JV’s 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. The EXCO/HGI JV’s credit-adjusted risk-free rate is based on its cost of debt plus the LIBOR curve as of the end of the reporting period.

The EXCO/HGI JV’s 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.

The EXCO/HGI JV’s 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 active NYMEX futures price quotes for HH for natural gas swaps, and (iii) the applicable credit-adjusted risk-free rate curve, as described above.

Table of Contents

Quantitative information regarding significant unobservable inputs used for recurring Level 3 fair value measurements of financial instruments carried at fair value as of December 31, 2013 and September 30, 2013 are as follows:

Assets	Valuation Technique	Unobservable Input(s)	Fair Value at December 31, 2013	September 30, 2013	Range (Weighted average) December 31, 2013	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			6 months	9 months
		Discount rate			1%	1%
		Credit insurance risk premium			11%	11%
Asset-backed securities	Broker-quoted	Offered quotes	9.8	5.0	98% - 107% (101%)	100% - 107% (101%)
Commercial mortgage-backed securities	Broker-quoted	Offered quotes	6.0	5.7	102%	96%
Corporates	Broker-quoted	Quoted prices	540.9	404.5	0% - 115% (92%)	0% - 113% (90%)
Corporates	Market Pricing	Offered quotes	66.2	56.6	91% - 132% (99%)	90% - 131% (97%)
Municipal	Broker-quoted	Offered quotes	34.3	—	98%	—%
Equity	Market Pricing	Revenue multiple	10.8		0.3x - 0.4x	
		Probably of transaction closing			95%	
	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%
Total			$709.5	$523.5		
Liabilities						
			$1,644.7	$1,544.4		

FIA embedded derivatives, included in contractholder funds	Discounted cash flow	Market value of option			0% - 43% (5%)	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% - 0.25% (0.25%)
Front Street future policyholder benefit liability	Discounted cash flow	Non-performance risk spread	149.9	—	0.65% - 1.5%	—%
		Liquidity risk spread			0.5%	—%

27

Table of Contents

Assets	Valuation Technique	Unobservable Input(s)	Fair Value at December 31, 2013	September 30, 2013	Range (Weighted average) December 31, 2013	September 30, 2013
Equity conversion feature of preferred stock	Monte Carlo simulation / Option model	Annualized volatility of equity	378.0	330.8	40%	42%
		Discount yield			11%	11%
		Non-cash accretion rate			0%	0%
		Calibration adjustment			0%	0% - 1.0% (0.3%)
Total			$2,172.6	$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 December 31, 2013 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 liquidity risk spread. Significant increases (decreases) in non-performance risk spread and liquidity risk spread would result in a lower (higher) fair value measurement.

Table of Contents

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 months ended December 31, 2013 and December 30, 2012. 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 December 31, 2013

	Balance at Beginning of Period	Total Gains (Losses)		Purchases	Sales	Settlements	Net transfer In (Out) of Level 3	Balance at End of Period
		Included in Earnings	Included in AOCI					
Assets								
Contingent purchase price reduction receivable	$41.0	$0.5	$—	$—	$—	$—	$—	$41.5
Fixed maturity securities available-for-sale:								
Asset-backed securities	5.0	—	(0.2)	5.0	—	—		9.8
Commercial mortgage-backed securities	5.7	—	0.3	—	—	—		6.0
Corporates	461.1	—	(6.1)	152.6	—	(0.5)		607.1
Municipals	—	—	(0.7)	35.0	—	—	—	34.3
Equity securities - trading	10.7	0.1	—	—	—	—	—	10.8
Total assets at fair value	$523.5	$0.6	$(6.7)	$192.6	$—	$(0.5)	$—	$709.5

	Balance at Beginning of Period	Total (Gains) Losses		Purchases	Sales	Settlements	Net transfer In (Out) of Level 3	Balance at End of Period
		Included in Earnings	Included in AOCI					
Liabilities								
FIA embedded derivatives, included in contractholder funds	$1,544.4	$100.3	$—	$—	$—	$—	$—	$1,644.7
FSR future policyholder benefit liability	—	(0.7)	—	150.6	—	—	—	149.9
Equity conversion feature of preferred stock	330.8	47.2	—	—	—	—	—	378.0
Total liabilities at fair value	$1,875.2	$146.8	$—	$150.6	$—	$—	$—	$2,172.6

29

Table of Contents

	Three months ended December 30, 2012							
	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	—	(0.1)	—	—	—	(10.5)	5.3
Commercial mortgage-backed securities	5.0	—	0.1	1.0	—	—	—	6.1
Corporates	135.3	(0.2)	(2.0)	133.2	(9.6)	(0.7)	0.1	256.1
Hybrids	8.8	—	(0.1)	—	—	—	(3.7)	5.0
Total assets at fair value	$206.0	$(0.2)	$(2.1)	$134.2	$(9.6)	$(0.7)	$(14.1)	$313.5

	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	$(33.8)	$—	$—	$—	$—	$—	$1,517.0
Equity conversion feature of preferred stock	232.0	(68.9)	—	—	—	—	—	163.1
Total liabilities at fair value	$1,782.8	$(102.7)	$—	$—	$—	$—	$—	$1,680.1

(a) The net transfers in and out of Level 3 during the three months ended December 30, 2012 was 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 months ended December 31, 2013 and 2012.

There were no transfers in or out of Level 3 during the three months ended December 31, 2013. Primary market issuance and secondary market activity for certain asset-backed, hybrid and corporate securities during the three months ended December 30, 2012 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 December 30, 2012. Accordingly, FGL’s assessment resulted in net transfers out of Level 3 of $14.2 related to asset-backed securities, corporates, hybrids, municipals and residential mortgage-backed securities during the three months ended December 30, 2012.

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).

Table of Contents

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:

	December 31, 2013				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Policy loans and other invested assets	$—	$—	$117.3	$117.3	$117.3
Asset-based loans	—	—	794.0	794.0	794.0
Total financial assets	$—	$—	$911.3	$911.3	$911.3
Liabilities					
Total debt (a)	$—	$5,351.3	$—	$5,351.3	$5,165.9
Redeemable preferred stock, excluding equity conversion feature	—	—	378.8	378.8	333.4
Investment contracts, included in contractholder funds	—	—	12,513.8	12,513.8	13,875.0
Total financial liabilities	$—	$5,351.3	$12,892.6	$18,243.9	$19,374.3

	September 30, 2013				
	Level 1	Level 2	Level 3	Estimated Fair Value	Carrying Amount
Assets					
Policy loans and 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					
Total debt (a)	$—	$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 fair values of debt set forth above are generally based on quoted or observed market prices.

(b) 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.

Valuation Methodology

Investment contracts include deferred annuities, FIAs, IUL and immediate annuities. The fair values of deferred annuity, FIAs, and IUL contracts are based on their cash surrender value (i.e. the cost FGL would incur to extinguish the liability) as these contracts are generally issued without an annuitization date. The fair value of immediate annuities contracts is derived by calculating a new fair value interest rate using the updated yield curve and treasury spreads as of the respective reporting date. At December 31, 2013 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. The fair value of redeemable 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

Table of Contents

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, as those loans carry a variable rate, are revolving in nature, and can be settled at the demand of either party.

(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)	3.5	—	—	—	—	—
Deferrals	—	—	—	—	52.6	52.6
Less: Components of amortization -						
Periodic amortization	—	—	(20.2)	(28.7)	(16.7)	(65.6)
Interest	—	—	—	3.7	3.3	7.0
Unlocking	—	—	—	11.8	3.4	15.2
Reclassifications	—	—	—	—	—	—
Adjustment for unrealized investment losses, net	—	—	—	1.6	6.3	7.9
Effect of translation	(4.0)	3.4	0.1	—	—	3.5
Balance at December 31, 2013	$1,476.2	$1,181.5	$965.0	$213.7	$389.5	$2,749.7

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 three months ended December 31, 2013, 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.
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 December 31, 2013 and September 30, 2013, the VOBA balance included cumulative adjustments for net unrealized investment (gains) of $(79.7) and $(81.4), respectively, and the DAC balances included cumulative adjustments for net unrealized investment losses (gains) of $24.9 and $18.6, respectively. Amortization of VOBA and DAC for the three months ended December 31, 2013 and December 30, 2012 was $13.2 and $58.9, and $10.0 and $10.6 respectively.
The above DAC balances include $29.6 and $26.2 of deferred sales inducements ("DSI"), net of shadow adjustments, as of December 31, 2013 and September 30, 2013, respectively.

Table of Contents

Definite lived intangible assets are summarized as follows:

	December 31, 2013			September 30, 2013			
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net	Amortizable Life
Customer relationships	$886.3	$(172.6)	$713.7	$885.9	$(160.8)	$725.1	15 to 20 years
Trade names	171.3	(48.7)	122.6	171.6	(44.7)	126.9	1 to 12 years
Technology assets	172.1	(43.4)	128.7	172.1	(39.0)	133.1	4 to 17 years
	$1,229.7	$(264.7)	$965.0	$1,229.6	$(244.5)	$985.1	

Amortization expense for definite lived intangible assets is as follows:

	Three months ended	
	December 31, 2013	December 30, 2012
Customer relationships	$11.7	$10.4
Trade names	4.1	3.6
Technology assets	4.4	3.1
	$20.2	$17.1

The Company estimates annual amortization expense of amortizable intangible assets for the next five fiscal years will approximate $80.7 per year.

The weighted average amortization period for VOBA is approximately 4.8 years. Estimated amortization expense for VOBA in future fiscal periods is as follows:

	Estimated Amortization Expense
Fiscal Year	VOBA
2014	$33.4
2015	44.8
2016	39.5
2017	32.2
2018	25.9
2019 and thereafter	117.6

Table of Contents

(8) Debt

The Company's consolidated debt consists of the following:

	December 31, 2013			September 30, 2013		
	Amount	Rate		Amount	Rate	
HGI:						
7.875% Senior Secured Notes, due July 15, 2019	$925.0	7.9	%	$925.0	7.9	%
Spectrum Brands:						
CAD Term Loan, due December 17, 2019	78.8	5.0	%	81.4	5.1	%
Term Loan, due September 4, 2017 (Tranche A)	850.0	3.0	%	850.0	3.0	%
Term Loan, due September 4, 2019 (Tranche C)	515.0	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	308.0	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	1.8	%	—	5.7	%
Other notes and obligations	32.2	8.9	%	28.5	8.5	%
Capitalized lease obligations	91.1	6.3	%	67.4	6.2	%
FGL						
6.375% Senior Notes, due April 1, 2021	300.0	6.4	%	300.0	6.4	%
EXCO/HGI JV						
EXCO/HGI JV Credit Agreement, due February 14, 2018	258.5	2.7	%	271.2	2.7	%
Salus						
Unaffiliated long-term debt of consolidated variable-interest entity	191.8	6.7	%	182.9	6.6	%
Secured borrowings under non-qualifying loan participations	125.0	11.0	%	—	—	
Total	5,175.4			4,909.7		
Original issuance (discounts) premiums on debt, net	(9.5	)		(13.6	)	
Total debt	5,165.9			4,896.1		
Less current maturities	107.9			102.9		
Non-current portion of debt	$5,058.0			$4,793.2		

HGI

Subsequent to December 31, 2013, the Company issued $200.0 aggregate principal amount of 7.750% senior unsecured notes due 2022 (the "7.75% Notes"). See Note 18, Subsequent Events, for additional information.

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 which was scheduled to mature December 17, 2019 and had an aggregate amount outstanding of $513.3 prior to refinancing (formerly Tranche B) . 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 three month period ended December 31, 2013.

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 three month period ended December 31,

2013. In connection with the refinancing of a portion of the Term Loan, Spectrum Brands recorded $6.7 of fees during the three month period ended December 31, 2013, of which $4.7 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 $1.9 reflected as an increase to interest expense during the three month period ended December 31, 2013.

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 December 31, 2013, Spectrum Brands had aggregate borrowing availability of approximately $167.3, net of lender reserves of $8.6 and outstanding letters of credit of $40.9.

EXCO/HGI JV Credit Agreement

As of December 31, 2013, the EXCO/HGI JV had a borrowing base of $400.0 with $347.0 of outstanding indebtedness. Our proportionate share of the obligation was $258.5. The borrowing base is redetermined semi-annually, with the EXCO/HGI JV and the lenders having the right to request interim unscheduled redeterminations in certain circumstances. On December 3, 2013, the borrowing base was reduced to $400.0 in conjunction with the semi-annual redetermination. Borrowings under the EXCO/HGI Partnership Credit Agreement are secured by properties owned by the EXCO/HGI Partnership. The EXCO/HGI Partnership Credit Agreement matures on February 14, 2018.

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 December 31, 2013, Salus had $125.0 of such secured borrowings to co-lenders outstanding related to non-qualifying "participating interests".

(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	
	December 31, 2013	December 30, 2012
Service cost	$1.2	$0.8
Interest cost	3.4	2.6
Expected return on assets	(3.6)	(2.5)
Recognized net actuarial loss	0.4	0.5
Net periodic benefit expense	$1.4	$1.4
Contributions made during period	$3.4	$0.7

(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

Table of Contents

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 were as follows:

	Three months ended			
	December 31, 2013		December 30, 2012	
	Insurance Premiums	Benefits and Other Changes in Insurance Policy Reserves	Insurance Premiums	Benefits and Other Changes in Insurance Policy Reserves
Direct	$67.7	$296.4	$72.4	$139.6
Assumed	9.3	5.4	12.1	6.5
Ceded	(63.1)	(67.1)	(70.7)	(62.5)
Net	$13.9	$234.7	$13.8	$83.6

Amounts payable or recoverable for reinsurance on paid and unpaid claims are not subject to periodic or maximum limits. During the three months ended December 31, 2013 and December 30, 2012, FGL did not write off any reinsurance balances.
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.
FGL had the following significant reinsurance agreements as of December 31, 2013.
Commissioners Annuity Reserve Valuation Method Facility ("CARVM")
Effective October 1, 2012, FGL Insurance recaptured a CARVM reinsurance agreement from Old Mutual Reassurance (Ireland) Ltd., an affiliate of OM Group ("OM Re") and simultaneously ceded the business to Raven Reinsurance Company ("Raven Re"). The recapture of the OM Re CARVM reinsurance agreement satisfied an obligation of FGL under the F&G Stock Purchase Agreement. In connection with the new CARVM reinsurance agreement, FGL and Raven Re entered into an agreement with Nomura Bank International plc ("Nomura") to establish a $295.0 reserve financing facility in the form of a letter of credit issued by Nomura and Nomura charged an upfront structuring fee in the amount of $2.8. The reserve financing liability is set to be reduced by $6.3 each quarter subsequent to establishment. The structuring fee was paid by FGL Insurance and will be deferred and amortized over the expected life of the facility. As this letter of credit is provided by an unaffiliated financial institution, Raven Re is permitted to carry the letter of credit as an admitted asset on the Raven Re statutory balance sheet.
Front Street
On December 31, 2012, FGL entered into a Reinsurance Agreement with Front Street Cayman, also 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, Five Island, entered into an investment management agreement, pursuant to which 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

Table of Contents

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 $23.4 and $6.5 during the three months ended December 31, 2013 and December 30, 2012, 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 December 31, 2013 and related activity during the three 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	1,326	11.76	5.06	—	—	191	17.00	3.30
Exercised	(121)	4.85	1.72	(28)	41.79	—	—	—
Forfeited or expired	—	—	—	(1)	45.55	—	—	—
Stock options outstanding at December 31, 2013	5,159	7.91	3.21	306	44.44	191	17.00	3.30
Stock options vested and exercisable at December 31, 2013	1,723	6.93	2.72	129	42.56	—	—	—
Stock options outstanding and expected to vest	3,436	8.40	3.45	167	44.40	191	17.00	3.30

A summary of restricted stock, restricted stock units and Performance Restricted Stock Units ("PRSUs") outstanding as of December 31, 2013 and related activity during the three 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	3,302	12.00	107	17.00
Vested	(1,126)	10.15	—	—
Restricted stock outstanding at December 31, 2013	5,632	9.74	107	17.00
Restricted stock expected to vest	5,632	9.74	107	17.00

	Spectrum Brands		FGH	
Restricted Stock Units	Units	Weighted	Units	Weighted

		Average Grant Date Fair Value		Average Grant Date Fair Value
Restricted stock units outstanding at September 30, 2013	1,118	$39.11	46	$49.60
Granted	414	68.95	—	—
Vested	(904)	38.93	(15)	49.45
Restricted stock units outstanding at December 31, 2013	628	59.03	31	49.68
Restricted stock units vested and exercisable at December 31, 2013	—	—	—	—
Restricted stock units expected to vest	628	59.03	28	49.58

37

Table of Contents

Performance Restricted Stock Units	FGL Units	Weighted Average Grant Date Fair Value
Performance restricted stock units outstanding at September 30, 2013	—	$—
Granted	469	17.00
Performance restricted stock units outstanding at December 31, 2013	469	17.00
Performance restricted stock units vested and exercisable at December 31, 2013	—	—
Performance restricted stock units expected to vest	469	17.00

On December 31, 2013 the Company had 22 thousand vested and outstanding restricted stock units with a weighted average grant date fair value of $4.61 per share.

HGI

During the Fiscal 2014 Quarter, HGI granted stock option awards and restricted stock awards representing approximately 1,326 thousand and 3,302 thousand shares, respectively. 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 Fiscal 2014 Quarter on their respective grant dates was approximately $46.3. During Fiscal 2014 Quarter stock option awards and restricted stock awards with a total fair value of $14.4 vested. The total intrinsic value of share options exercised during Fiscal 2014 Quarter was $0.9, for which HGI received cash of $0.6 in settlement.

During the Fiscal 2013 Quarter, HGI granted stock option awards and restricted stock awards representing approximately 1,498 thousand and 3,227 thousand shares, respectively. All of these grants are time based, and vest over periods of 12 months up to 36 months. The total fair value of the stock grants on their respective grant dates was approximately $32.8.

Under HGI’s executive bonus plan for Fiscal 2013, executives will be paid in cash, stock options and restricted stock shares. The equity grants will have a grant date in the first fiscal quarter of 2015 and the shares will vest, either immediately, or between 12 and 36 months from the grant date.

As of December 31, 2013, there was approximately $35.7 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 2.24 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 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	1.46% to 1.75%	0.84%
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 weighted-average remaining contractual term of outstanding stock option awards at December 31, 2013, was 8.88 years.

Table of Contents

Spectrum Brands

Spectrum Brands granted restricted stock units representing approximately 414 thousand shares during the three months ended December 31, 2013. Of these grants, 81 thousand restricted stock units vested immediately and 45 thousand restricted stock units are time-based and vest over a period of one year. The remaining 288 thousand restricted stock units are performance and time-based and vest over a two years period. The total market value of the restricted shares on the date of the grant was approximately $29.0.

Spectrum Brands granted restricted stock units representing approximately 574 thousand shares during the three months ended December 30, 2012. Of these grants 22 thousand restricted stock units are time-based and vest over a period of one year. Of the remaining 552 thousand restricted stock units, 90 thousand are performance based and vest over a one year period, and 462 thousand restricted stock units are performance-based and vest over a two years period. The total market value of the restricted shares on the date of the grant was approximately $25.6.

The fair values of restricted stock awards and 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 the 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 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 Fiscal 2013, FGH determined that all equity awards will be settled in cash when exercised and therefore are classified as liability plans

During the Fiscal 2014 Quarter, FGL granted stock option awards, restricted stock awards and performance restricted stock units representing approximately 191 thousand, 107 thousand and 469 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 Fiscal 2014 Quarter on their respective grant dates was approximately $10.4. 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.

The total compensation cost related to non-vested options, restricted stock units and dividend equivalent plans, not yet recognized as of December 31, 2013 totaled $18.4 and will be recognized over a weighted-average period of 2.3 years.

The fair value of stock option awards 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%

Table of Contents

EXCO/HGI JV

A summary of the activity related to the EXCO/HGI JV incentive unit plan was as follows (share amounts in thousands):

	Shares	Weighted average grant date fair value per share
Non-vested awards at September 30, 2013	102	$ 10.00
Granted	—	—
Non-vested awards at December 31, 2013	102	10.00

ASC 718 requires share-based compensation be recorded with cost classifications consistent with cash compensation. The EXCO/HGI JV uses the full cost method to account for its oil and natural gas properties. As a result, part of the share-based payments are capitalized. During the three months ended December 31, 2013 an immaterial amount was capitalized as part of the EXCO/HGI JV’s oil and natural gas properties. HGI’s proportionate share of the EXCO/HGI JV’s total share-based compensation on unvested awards was $0.5 as of December 31, 2013, and will be recognized over an average period of 2.1 years.

(12) Income Taxes

For the three months ended December 31, 2013, the Company's effective tax rate of 104.4% was 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 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; (iii) book expense for the increase in the fair value of the equity conversion feature of Preferred Stock, for which no tax benefit is available; and (iv) tax amortization of certain indefinite lived intangibles. In addition, the Company is not permanently reinvesting income from its foreign operations, thereby subjecting unremitted foreign earnings to an incremental tax in the U.S. at Federal statutory income tax rate of 35%, as no U.S. foreign tax credits can be claimed to U.S. net operating losses.
For the three months ended December 30, 2012, the Company's effective tax rate of 48.6% was negatively impacted by: (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. In addition, the Company is not permanently reinvesting income from its foreign operations, thereby subjecting unremitted foreign earnings to an incremental tax in the U.S. at the Federal statutory income tax rate of 35%, as no U.S. foreign tax credits can be claimed due to U.S. net operating losses. Partially offsetting these factors in the three months ended December 30, 2012 was: (i) the release of U.S. valuation allowance of $45.9 on deferred tax assets that Spectrum Brands has determined are more-likely-than-not realizable as a result of an acquisition; and (ii) income resulting from a decrease in the fair value of the equity conversion feature of Preferred Stock which is not taxable.
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 December 31, 2013 and September 30, 2013, the Company had $13.3 and $13.8, respectively, of unrecognized tax benefits related to uncertain tax positions. If recognized in the future, $9.6 and $10.1, respectively, of unrecognized tax benefits would impact the effective tax rate at those dates. The Company also had approximately $3.6 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 December 31, 2013, 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,

Table of Contents

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 the Fiscal 2012 and future foreign subsidiary earnings, except to the extent repatriation of such earnings is limited or precluded by law. With these remitted earnings, Spectrum Brands plans to voluntarily 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 the expected future repatriation of foreign earnings. During the three months ended December 31, 2013, 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	
	December 31, 2013	December 30, 2012
Net (loss) income attributable to common and participating preferred stockholders	$(39.0)	$62.0
Participating shares at end of period:		
Common shares outstanding	139,574	139,724
Preferred shares (as-converted basis)	61,986	62,839
Total	201,560	202,563
Percentage of (loss) income allocated to:		
Common shares	100.0 %	69.0 %
Preferred shares (a)	— %	31.0 %
Net (loss) income attributable to common shares - basic	$(39.0)	$42.8
Dilutive adjustments to (loss) income attributable to common shares from assumed conversion of preferred shares, net of tax:		
Income allocated to preferred shares in basic calculation	—	19.2
Reversal of preferred stock dividends and accretion	—	12.1
Reversal of income related to fair value of preferred stock conversion feature	—	(68.9)
Net adjustment	—	(37.6)
Net (loss) income attributable to common shares - diluted	$(39.0)	$5.2
Weighted-average common shares outstanding - basic	139,173	139,483
Dilutive effect of preferred stock	—	62,839
Dilutive effect of unvested restricted stock and restricted stock units	—	1,089
Dilutive effect of stock options	—	786
Weighted-average shares outstanding - diluted	139,173	204,197
Net (loss) income per common share attributable to controlling interest:		
Basic	$(0.28)	$0.31
Diluted	$(0.28)	$0.03

Table of Contents

(a) Losses are not allocated to the convertible participating preferred shares 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.

At December 31, 2013, there were 61,986 thousand shares issuable upon the conversion of the Preferred Stock, and 2,433 thousand and 1,234 thousand 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 period ended December 31, 2013. The Preferred Stock had a weighted average conversion price of $6.64 per share.

(14) Commitments and Contingencies

The Company has aggregate reserves for its legal, environmental and regulatory matters of approximately $18.1 at December 31, 2013. These reserves relate primarily to the matters described below. However, based on currently available information, including legal defenses available to the Company, and given the aforementioned reserves and related insurance coverage, the Company does not believe that the outcome of these legal, environmental and regulatory matters will have a material effect on its financial position, results of operations or cash flows.

Legal and Environmental Matters

HGI

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

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

Spectrum Brands

Spectrum Brands has accrued approximately $4.8 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.

Table of Contents

Regulatory Matters

FGL

FGL is assessed amounts by the state guaranty funds to cover losses to policyholders of insolvent or rehabilitated insurance companies. Those mandatory assessments may be partially recovered through a reduction in future premium taxes in certain states. At December 31, 2013, FGL has accrued $4.8 for guaranty fund assessments which is expected to be offset by estimated future premium tax deductions of $4.6.

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. Additional costs that cannot be reasonably estimated as of the date of this filing are possible as a result of ongoing regulatory developments and other future requirements related to this matter.

The EXCO/HGI JV

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 the EXCO/HGI's operations and the costs of its oil and natural gas exploitation, development and production operations. The EXCO/HGI JV 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, the EXCO/HGI JV is unable to predict the conditions and other factors over which the EXCO/HGI JV 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 between FGL and OMGUK 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 December 31, 2013, the notional amount of

Table of Contents

unfunded, legally binding lending commitments was approximately $226.6, of which $20.9 expires in one year or less, and the remainder expires between one and five years.

(15) Related Party Transactions

In November 2012, the Company and Harbinger Capital Partners LLC (“Harbinger Capital”), an affiliate of the Company and the HCP Stockholders, entered into a reciprocal services agreement (the “Services Agreement”) with respect to the provision of services to each other going forward. Pursuant to the Services Agreement, the parties each agreed to provide or cause to be provided services to each other, including their respective affiliates and subsidiaries. The services may include providing office space and operational support and each party making available their respective employees to provide services as reasonably requested by the other party, subject to any limitations contained in applicable employment agreements and the terms of the Services Agreement. Each party will pay the other party a service fee for the services provided and such service fee is intended to be the actual cost of the service without profit but including, as applicable, one-time costs, out-of pocket costs, costs of consents, fully loaded hourly rates and any pass through or allocation of payments. The Services Agreement provides that the parties are subject to confidentiality obligations and that the parties will indemnify each other and their related parties against certain costs and liabilities arising out of the performance of the Services Agreement. The Services Agreement will continue in effect until terminated by either party, following thirty (30) days advance written notice. A special committee of the Company’s board of directors, comprised of independent directors under the rules of the NYSE, advised by independent counsel, determined that it is in the best interests of the Company and its stockholders (not including Harbinger Capital and its affiliates) for the Company to enter into the Services Agreement and recommended to the Company’s board directors that they approve entry into the Services Agreement. Following such determination, the Company’s board of directors approved the Services Agreement. The Company recognized $1.4 and $0.3 of expenses under these Service Agreement with respect to the three months ended December 31, 2013 and 2012, respectively.

Table of Contents

(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) Financial Services.

	Three months ended	
	December 31, 2013	December 30, 2012
Revenues:		
Consumer Products	$1,100.6	$870.3
Insurance	373.1	343.6
Energy	35.5	—
Financial Services	4.5	8.4
Intersegment elimination	(3.7)	—
Consolidated revenues	$1,510.0	$1,222.3
Operating income (loss):		
Consumer Products	$125.0	$68.2
Insurance	85.3	163.6
Energy	6.0	—
Financial Services	(3.9)	5.1
Intersegment elimination	(3.7)	—
Total segments	208.7	236.9
Corporate and eliminations	(29.4)	(21.5)
Consolidated operating income	179.3	215.4
Interest expense	(84.0)	(143.1)
(Loss) gain from the change in the fair value of the equity conversion feature of preferred stock	(47.2)	68.9
Gain on contingent purchase price reduction	0.5	—
Other expense, net	(11.9)	(8.7)
Consolidated income from continuing operations before income taxes	$36.7	$132.5
Total assets:	December 31, 2013	September 30, 2013
Consumer Products	$5,649.8	$5,626.7
Insurance	21,888.2	21,183.1
Energy	597.2	617.6
Financial Services	691.7	572.2
Intersegment elimination	(436.1)	(461.4)
Total segments	28,390.8	27,538.2
Corporate assets	373.2	370.6
Consolidated total assets	$28,764.0	$27,908.8

Table of Contents

Net change in cash due to operating activities	Three months ended December 31, 2013	Three months ended December 30, 2012
Consumer Products	$(136.0)	$(169.6)
Insurance	58.8	67.6
Energy	7.2	—
Financial Services	5.4	1.9
Net change in cash due to segment operating activities	(64.6)	(100.1)
Net change in cash due to corporate operating activities	(24.8)	(55.2)
Consolidated change in cash due to operating activities	$(89.4)	$(155.3)

(17) Consolidating Financial Information
The following schedules present the Company's consolidating balance sheet information at December 31, 2013 and December 30, 2012, and consolidating statements of operations information for the three months ended December 31, 2013 and 2012. 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. 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.

Table of Contents

Harbinger Group Inc. - Condensed Consolidating Balance Sheet Information

December 31, 2013	Consumer Products	Insurance	Energy	Financial Services	Corporate and Other	Eliminations	Total
Assets:							
Investments	$—	$17,296.8	$—	$576.9	$39.5	$(244.9)	$17,668.3
Investments in subsidiaries and affiliates	—	62.0	—	—	1,937.5	(1,999.5)	—
Affiliated loans and receivables	—	128.4	—	0.2	—	(128.6)	—
Cash and cash equivalents	131.8	787.7	13.6	98.9	261.8	—	1,293.8
Receivables, net	587.2	—	16.5	0.3	41.5	—	645.5
Inventories, net	683.3	—	—	—	—	—	683.3
Accrued investment income	—	157.8	—	3.3	—	(0.6)	160.5
Reinsurance recoverable	—	2,389.0	—	—	—	—	2,389.0
Deferred tax assets	33.8	255.5	—	—	0.8	—	290.1
Properties, including oil and natural gas properties, net	435.3	8.9	564.3	0.7	0.5	—	1,009.7
Goodwill	1,476.2	—	—	—	—	—	1,476.2
Intangibles, including DAC and VOBA, net	2,146.4	603.3	—	—	—	—	2,749.7
Other assets	155.8	198.8	2.8	11.4	29.1	—	397.9
Total assets	$5,649.8	$21,888.2	$597.2	$691.7	$2,310.7	$(2,373.6)	$28,764.0
Liabilities and Equity:							
Insurance reserves	$—	$19,315.5	$—	$—	$—	$—	$19,315.5
Debt	3,366.3	300.0	258.5	316.8	924.3	—	5,165.9
Accounts payable and other current liabilities	709.8	77.6	24.4	9.6	70.4	—	891.8
Equity conversion feature of preferred stock	—	—	—	—	378.0	—	378.0
Employee benefit obligations	92.1	—	—	—	2.8	—	94.9
Deferred tax liabilities	491.9	—	—	—	—	—	491.9
Other liabilities	27.3	724.5	25.8	33.3	—	—	810.9
Affiliated debt and payables	—	15.2	100.0	273.3	—	(388.5)	—
Total liabilities	4,687.4	20,432.8	408.7	633.0	1,375.5	(388.5)	27,148.9
Temporary equity	—	—	0.2	—	333.2	—	333.4
Total stockholders' equity	538.6	1,198.4	188.3	59.8	602.0	(1,985.1)	602.0
Noncontrolling interests	423.8	257.0	—	(1.1)	—	—	679.7
Total permanent equity	962.4	1,455.4	188.3	58.7	602.0	(1,985.1)	1,281.7
Total liabilities and equity	$5,649.8	$21,888.2	$597.2	$691.7	$2,310.7	$(2,373.6)	$28,764.0

Table of Contents

September 30, 2013	Consumer Products	Insurance	Energy	Financial Services	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

Table of Contents

Harbinger Group Inc. - Condensed Consolidating Statements of Operations Information

Three months ended December 31, 2013	Consumer Products	Insurance	Energy	Financial Services	Corporate and Other	Eliminations	Total
Revenues:							
Net consumer product sales	$1,100.6	$—	$—	$—	$—	$—	$1,100.6
Oil and natural gas	—						