HARBINGER GROUP INC.
Form 10-Q
February 06, 2015

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, 2014

OR

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

For the transition period from to

Commission file number: 1-4219

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

Delaware (State or other jurisdiction of incorporation or organization)	74-1339132 (I.R.S. Employer Identification No.)
450 Park Avenue, 29th 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 x	Accelerated Filer ¨
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 201,516,319 shares of the registrant’s common stock outstanding as of February 2, 2015.

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

	December 31, 2014 (Unaudited)	September 30, 2014
ASSETS		
Investments:		
Fixed maturities	$17,677.8	$17,211.5
Equity securities	717.4	768.1
Derivatives	306.2	296.3
Asset-based loans	791.9	811.6
Other invested assets	247.0	165.0
Total investments	19,740.3	19,252.5
Cash and cash equivalents	1,311.4	1,319.2
Receivables, net	660.1	585.1
Inventories, net	710.2	635.2
Accrued investment income	167.9	184.9
Reinsurance recoverable	2,416.7	2,397.6
Deferred tax assets	178.8	186.7
Properties, including oil and natural gas properties, net	1,054.8	908.6
Goodwill	1,491.9	1,524.8
Intangibles, including deferred acquisition costs and value of business acquired, net	2,712.3	2,683.7
Other assets	762.3	421.9
Total assets	$31,206.7	$30,100.2
LIABILITIES AND EQUITY		
Insurance reserves:		
Contractholder funds	$17,160.1	$16,463.5
Future policy benefits	3,980.3	3,655.5
Liability for policy and contract claims	67.8	58.1
Funds withheld from reinsurers	38.4	38.0
Total insurance reserves	21,246.6	20,215.1
Debt	5,666.0	5,157.8
Accounts payable and other current liabilities	899.6	1,033.0
Employee benefit obligations	82.5	86.2
Deferred tax liabilities	518.0	533.3
Other liabilities	712.0	817.8
Total liabilities	29,124.7	27,843.2
Commitments and contingencies		
Harbinger Group Inc. stockholders' equity:		
Common stock	2.0	2.0
Additional paid-in capital	1,437.7	1,472.3
Accumulated deficit	(386.1)	(276.3)
Accumulated other comprehensive income	222.6	243.6

Total Harbinger Group Inc. stockholders' equity	1,276.2	1,441.6
Noncontrolling interest:	805.8	815.4
Total permanent equity	2,082.0	2,257.0
Total liabilities and equity	$31,206.7	$30,100.2

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended December 31,	
	2014	2013
	(Unaudited)	
Revenues:		
Net consumer and other product sales	$1,088.8	$1,100.6
Oil and natural gas	34.3	35.5
Insurance premiums	11.7	13.9
Net investment income	230.8	201.2
Net investment gains	52.0	141.9
Insurance and investment product fees and other	20.8	16.9
Total revenues	1,438.4	1,510.0
Operating costs and expenses:		
Cost of consumer products and other goods sold	712.0	719.4
Oil and natural gas direct operating costs	20.5	16.1
Benefits and other changes in policy reserves	241.5	234.7
Selling, acquisition, operating and general expenses	365.4	317.1
Impairments	250.2	—
Amortization of intangibles	31.8	43.4
Total operating costs and expenses	1,621.4	1,330.7
Operating (loss) income	(183.0)	179.3
Interest expense	(80.6)	(84.0)
Loss from the change in the fair value of the equity conversion feature of preferred stock	—	(47.2)
Gain on contingent purchase price reduction	—	0.5
Other income (expense), net	174.0	(11.9)
(Loss) income from continuing operations before income taxes	(89.6)	36.7
Income tax expense	16.8	38.3
Net loss	(106.4)	(1.6)
Less: Net income attributable to noncontrolling interest	3.4	25.2
Net loss attributable to controlling interest	(109.8)	(26.8)
Less: Preferred stock dividends and accretion	—	12.2
Net loss attributable to common and participating preferred stockholders	$(109.8)	$(39.0)
Net loss per common share attributable to controlling interest:		
Basic	$(0.56)	$(0.28)
Diluted	$(0.56)	$(0.28)

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended December 31,	
	2014	2013
	(Unaudited)	
Net loss	$(106.4)	$(1.6)
Other comprehensive loss		
Foreign currency translation losses	(34.5)	(0.3)
Net unrealized gain on derivative instruments		
Changes in derivative instruments before reclassification adjustment	7.7	0.9
Net reclassification adjustment for (gains) losses included in net income	(4.8)	0.9
Changes in derivative instruments after reclassification adjustment	2.9	1.8
Changes in deferred income tax asset/liability	—	(0.5)
Deferred tax valuation allowance adjustments	(1.0)	0.1
Net unrealized gain on derivative instruments	1.9	1.4
Actuarial adjustments to pension plans		
Changes in actuarial adjustments before reclassification adjustment	1.0	(0.4)
Net reclassification adjustment for losses included in cost of goods sold	0.2	0.1
Net reclassification adjustment for losses included in selling and general and administrative expenses	0.2	0.3
Changes in actuarial adjustments to pension plans	1.4	—
Changes in deferred income tax asset/liability	(0.3)	—
Net actuarial adjustments to pension plans	1.1	—
Unrealized investment losses:		
Changes in unrealized investment losses before reclassification adjustment	(7.8)	(9.9)
Net reclassification adjustment for losses (gains) included in net income	4.1	(8.1)
Changes in unrealized investment losses after reclassification adjustment	(3.7)	(18.0)
Adjustments to intangible assets	1.2	7.9
Changes in deferred income tax asset/liability	0.6	3.6
Net unrealized loss on investments	(1.9)	(6.5)
Net change to derive comprehensive loss for the period	(33.4)	(5.4)
Comprehensive loss	(139.8)	(7.0)
Less: Comprehensive (loss) income attributable to the noncontrolling interest:		
Net income	3.4	25.2
Other comprehensive loss	(13.9)	(0.9)
	(10.5)	24.3
Comprehensive loss attributable to the controlling interest	$(129.3)	$(31.3)

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended December 31,	
	2014	2013
	(Unaudited)	
Cash flows from operating activities:		
Net loss	$(106.4)	$(1.6)
Adjustments to reconcile net loss to operating cash flows		
Depreciation of properties	34.1	30.3
Amortization of intangibles	31.8	43.4
Impairment of intangible assets and goodwill	60.2	—
Impairment of oil and gas properties	190.0	—
Stock-based compensation	20.1	23.4
Amortization of debt issuance costs	4.5	5.0
Amortization of debt discount	1.2	0.6
Write-off of debt issuance costs and (premiums) discounts on retired debt	—	9.2
Deferred income taxes	(11.2)	2.5
Gain on contingent purchase price reduction	—	(0.5)
Interest credited/index credits to contractholder account balances	210.8	194.3
Collateral received (paid)	39.3	2.7
Amortization of fixed maturity discounts and premiums	(13.2)	(14.8)
Net recognized gains on investments and derivatives	(220.9)	(88.3)
Charges assessed to contractholders for mortality and administration	(14.8)	(9.8)
Deferred policy acquisition costs	(95.5)	(52.6)
Non-cash increase to cost of goods sold due to the sale of HHI Business acquisition inventory	0.8	—
Non-cash restructuring and related charges	1.1	1.4
Changes in operating assets and liabilities:	(303.6)	(234.6)
Net change in cash due to operating activities	(171.7)	(89.4)
Cash flows from investing activities:		
Proceeds from investments sold, matured or repaid	982.2	1,820.3
Cost of investments acquired	(1,526.0)	(2,728.2)
Acquisitions, net of cash acquired	(147.3)	—
Net asset-based loan repayments (originations)	20.1	(110.4)
Capital expenditures	(22.5)	(21.0)
Proceeds from sales of assets	1.1	—
Other investing activities, net	(1.0)	—
Net change in cash due to investing activities	(693.4)	(1,039.3)
Cash flows from financing activities:		
Proceeds from issuance of new debt	442.7	537.9
Repayment of debt, including tender and call premiums	(1.8)	(513.8)
Revolving credit facility activity	—	97.3
Debt issuance costs	(6.1)	(4.7)
Purchases of subsidiary stock, net	(29.0)	(4.5)
Contractholder account deposits	945.9	774.4
Contractholder account withdrawals	(445.0)	(494.8)
Dividend paid by subsidiary to noncontrolling interest	(7.4)	(5.5)

Dividends paid on preferred stock	—	(8.2)
Share based award tax withholding payments	(18.6)	(31.2)
Proceeds from initial public offering of subsidiary shares, less costs of issuance	—	175.9
Common stock repurchased	(19.0)	—
Other financing activities, net	1.9	0.5
Net change in cash due to financing activities	863.6	523.3
Effect of exchange rate changes on cash and cash equivalents	(6.3)	(0.5)
Net change in cash and cash equivalents	(7.8)	(605.9)
Cash and cash equivalents at beginning of period	1,319.2	1,899.7
Cash and cash equivalents at end of period	$1,311.4	$1,293.8

See accompanying notes to condensed consolidated financial statements.

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

(1) Description of Business

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

In October 2014, HGI's subsidiary Spectrum Brands Holdings, Inc., a Delaware corporation (“Spectrum Brands”), completed a $30.3 cash acquisition of Tell Manufacturing, Inc. (“Tell”), a manufacturer and distributor of commercial doors, locks and hardware. See Note 3, Acquisitions.

Also in October 2014, the Company's wholly-owned subsidiary, HGI Energy Holdings, LLC (“HGI Energy”), acquired approximately 25.5% remaining interests in a joint venture (Compass Production GP, LLC and Compass Production Partners, LP collectively, and together with their respective subsidiaries, “Compass", and formerly referred to as the “EXCO/HGI JV”) from EXCO Resources, Inc. (“EXCO”) for $118.8 in cash. See Note 3, Acquisitions.

On November 25, 2014, the Company announced that Philip Falcone, HGI's Chief Executive Officer and Chairman of the board of directors (the "Board") had, effective December 1, 2014, resigned from his positions with the Company. In connection with his resignation, the Company paid Mr. Falcone the payments described in Note 14. below. In addition, the warrants to acquire common stock of HGI that were previously awarded to Mr. Falcone will continue to vest in accordance with their existing vesting schedule.

In November 2014, Front Street Re (Cayman) Ltd. (“Front Street Cayman”), a wholly-owned subsidiary of HGI, purchased Ability Reinsurance (Bermuda) Limited (“Ability Re”) from Ability Reinsurance Holdings Limited (“Ability Re Holdings”) for $19.2. Upon the purchase, Ability Re was concurrently merged into Front Street Cayman, where Front Street Cayman was the surviving entity. See Note 3, Acquisitions.

In December 2014, Spectrum Brands issued $250.0 aggregate principal amount of 6.125% unsecured notes at par value, due December 15, 2024 (the “6.125% Notes”) and entered into a new term loan facility in an aggregate principal amount of €150.0 (the “Euro Term Loan Tranche B”). See Note 8, Debt.

During the quarter ended December 31, 2014, HGI purchased 1.5 million shares of its outstanding common stock for an aggregate purchase price of $19.0 under the $100.0 repurchase program authorized by HGI's Board in May 2014. At December 31, 2014, the Company had a remaining balance of $15.5 in its repurchase program, the remainder of which was fully utilized during the second fiscal quarter of 2015.

The Company’s reportable business segments are organized in a manner that reflects how HGI’s management views those business activities. Accordingly, the Company currently operates its business in four reporting segments: (i) Consumer Products, (ii) Insurance, (iii) Energy, and (iv) Asset Management. For the results of operations by segment, and other segment data, see Note 15, Segment Data.

(2) Basis of Presentation, Significant Accounting Policies 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

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GAAP"), have been condensed or omitted pursuant to such rules and regulations. Certain prior amounts have been reclassified or combined to conform to the current year presentation. These reclassifications and combinations had no effect on previously reported results of operations or accumulated deficit. These interim financial statements should be read in conjunction with the Company’s annual consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2014, filed with the SEC on November 21, 2014 (the "Form 10-K"). The results of operations for the three months ended December 31, 2014 are not necessarily indicative of the results for any subsequent periods or the entire fiscal year ending September 30, 2015.

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, 2014, the non-controlling interest component of total equity primarily represents the 41.4% share of Spectrum Brands and the 19.9% of Fidelity & Guaranty Life ("FGL") not owned by HGI.

Oil and natural gas properties

Ceiling Test

For the three months ended December 31, 2014, Compass recognized an impairment of $190.0 to its proved oil and natural gas properties. As further discussed in Note 3, Acquisitions, the change in control resulting from the acquisition of EXCO's remaining interest in Compass triggered the remeasurement of the Company's initial basis in Compass at fair value which increased the Compass' full cost pool. The purchase price for the acquisition was based on both the income and market approach models which incorporate, among other things, market prices based on the New York Mercantile Exchange ("NYMEX") futures as of the acquisition date, which the Company believes reflects an independent proxy point for determining fair value. The ceiling test, however, requires companies using the full cost accounting method to price period-ending proved reserves using the simple average spot price for the trailing 12 month period, which may not be indicative of actual market values. As a result, Compass' full cost pool exceeded its ceiling test limitation at December 31, 2014 resulting in an impairment. For the three months ended December 31, 2013 the ceiling test did not result in an impairment to Compass' oil and natural gas properties. As a result of recent decline in oil and natural gas prices, Compass expects to incur additional impairments to its oil and natural gas properties in fiscal year 2015 if prices do not increase.

The ceiling test is computed using the simple average spot price for the trailing 12 month period using the first day of each month. As of December 31, 2014, the trailing 12 month reference prices were $4.35 per Million British Thermal Units ("Mmbtu") for natural gas at Henry Hub ("HH"), and $94.99 per barrel ("Bbl") of oil for West Texas Intermediate at Cushing, Oklahoma. Each of the reference prices for oil and natural gas are further adjusted for quality factors and regional differentials to derive estimated future net revenues. The price used for natural gas liquids was $42.55 per Bbl and was based on the trailing 12 month average of realized prices. Under full cost accounting rules, any ceiling test impairments of oil and natural gas properties may not be reversed in subsequent periods. Since Compass does not designate its derivative financial instruments as hedging instruments, Compass is not allowed to use the impacts of the derivative financial instruments in the ceiling test computations.

The ceiling test calculation and impairment evaluation are based upon estimates of proved reserves. There are numerous uncertainties inherent in estimating quantities of proved reserves, in projecting the future rates of production and in the timing of development activities. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, testing and production subsequent to the date of the estimate may justify revision of such estimate. Accordingly, reserve estimates are often different from the quantities of oil, natural gas and natural gas liquids that are ultimately recovered.

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Insurance Subsidiary Financial Information and Regulatory Matters

Fidelity & Guaranty Life Insurance Company's ("FGL Insurance") statutory carrying value of Raven Reinsurance Company ("Raven Re") reflects the effect of permitted practices Raven Re received to treat the available amount of a letter of credit as an admitted asset which increased Raven Re’s statutory capital and surplus by $245.0(unaudited) and $270.0 at December 31, 2014 and 2013, respectively. Raven Re is also permitted to follow Iowa prescribed statutory accounting practice for its reserves on reinsurance assumed from FGL Insurance which increased Raven Re’s statutory capital and surplus by $17.3 (unaudited) and $20.5 at December 31, 2014 and 2013, respectively. Without such permitted statutory accounting practices Raven Re’s statutory capital and surplus would be negative $75.1 (unaudited) and negative $108.9 as of December 31, 2014 and 2013, respectively, and its risk-based capital would fall below the minimum regulatory requirements. The letter of credit facility is collateralized by debt securities rated by the National Association of Insurance Commissioners (“NAIC”) as "NAIC-1". If the permitted practice was revoked, the letter of credit could be replaced by the collateral assets with Nomura Bank International plc's consent.

Recent Accounting Pronouncements

Investments in Qualified Affordable Housing Projects

In January 2014, the Financial Accounting Standards Board ("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. ASU 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Project. The Company early adopted this guidance effective October 1, 2014 for all new LIHTC investments made subsequent to that date. Prior LIHTC investments will continue to be accounted for under the effective-yield method. This adoption did not have a material effect on the Company’s consolidated financial position and results of operations.

Share-Based Payments When a Performance Target is Achieved after the Requisite Service Period

In June 2014, the Financial Accounting Standards Board issued new guidance on Stock Compensation (ASU 2014-12, Accounting for Share-Based Payments When the Term of an Award Provide that a Performance Target Could Be Achieved after the Requisite Service Period), effective for fiscal years beginning after December 15, 2015 and interim periods within those years. The new guidance requires that performance targets that affect vesting and that could be achieved after the requisite service period to be treated as performance conditions. Such performance targets would not be included in the grant-date fair value calculation of the award, rather compensation cost should be recorded when it is probable the performance target will be reached and should represent the compensation cost attributable to period(s) for which the requisite service has already been rendered. This standard may be early adopted and the amendments in this accounting standards update may be applied either prospectively or retrospectively. The Company will not early adopt this standard and is currently evaluating the impact of this new accounting guidance on its consolidated financial statements.

(3) Acquisitions

In accordance with ASC Topic 805, “Business Combinations” (“ASC 805”), the Company accounts for acquisitions by applying the acquisition method of accounting. The acquisition method of accounting requires, among other things, that the assets acquired and liabilities assumed in a business combination be measured at their fair values as of the closing date of the acquisition. The fair values assigned to the assets acquired and liabilities assumed are based on valuations using management’s best estimates and assumptions and are preliminary pending the completion of the valuation analysis of selected assets and liabilities. During the measurement period (which is not to exceed one year from the acquisition date), the Company is required to retrospectively adjust the provisional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets or liabilities as of that date.

The results of operations of the acquired companies since the respective acquisition dates are included in the Company's unaudited Condensed Consolidated Statements of Operations.

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Compass

On October 6, 2014, the Company entered into an agreement to buy from EXCO the remaining 25.5% economic interest in Compass for $118.8. The transaction closed on October 31, 2014 resulting in the Company owning an economic interest of 99.8% in Compass and 100% of the ownership interests in the general partner of Compass. As a result of this transaction, Compass became a wholly owned subsidiary of the Company. At the closing, EXCO and the Company terminated the existing operating and administrative services agreements and entered into a customary transition services agreement pursuant to which EXCO will provide certain transition services to Compass for up to nine months following the closing date.

In accordance with ASC 805-10, if the acquirer holds a noncontrolling equity investment in the acquiree immediately before obtaining control, the acquirer must remeasure its investment to fair value as of the acquisition date and recognize any remeasurement gains or losses in earnings. As a result of the acquisition, the Company is the majority owner of Compass and will therefore have a controlling interest. As a result of the revaluation of the Company's existing equity-method investment upon gaining control, the Company's initial investment in Compass increased by $141.2 on October 31, 2014. The increase was primarily due to the valuation of proved developed and undeveloped oil and natural gas properties which increased $145.4.

The following table presents a summary of the fair value of assets and liabilities on October 31, 2014, which was the date the Company acquired control of Compass through the acquisition of the additional interest from EXCO:

Purchase price allocation	Preliminary Valuation October 31, 2014	
Assets acquired:		
Current assets	$56.1	
Unproved oil and natural gas properties	26.3	
Proved developed oil and natural gas properties	767.5	
Gathering assets	20.8	
Other non-current assets	1.9	
Liabilities assumed:		
Accounts payable	(23.2	)
Revenues and royalties payable	(18.9	)
Other current liabilities	(1.0	)
Long term debt, less current maturities	(327.0	)
Asset retirement obligations	(36.0	)
Total identifiable net assets	466.5	
Non-controlling interests	(0.8	)
Total net assets acquired	$465.7	
Cash paid upon the acquisition of additional interest	$118.8	
Fair value of equity investment in Compass prior to acquisition	346.9	
Total purchase price	$465.7	

The Company performed a valuation of the assets acquired and liabilities assumed at October 31, 2014. A summary of key inputs is as follows:

Unproved oil and natural gas properties - The fair value of unproved oil and natural gas properties was determined based on a discounted cash flow model of the estimated reserves for unproved reserve categories (probable, possible and contingent). The estimated quantities of reserves utilized assumptions were based on the Company's internal geological, engineering and financial data. The Company utilized NYMEX forward strip prices to value the reserves, and then applied various discount rates depending on the classification of reserves and other risk characteristics.

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Proved oil and natural gas properties - The fair value of proved oil and natural gas properties was determined based on the combination of income approach and market approach. The Company used the income approach which uses underlying reserves to estimate the fair value. For the market approach, the Company used a comparable company method as well as a comparable transaction method. Under the comparable company method, the fair value was estimated by comparing Compass to publicly-traded firms in similar lines of business. Comparable company multiples were applied to the Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") in order to calculate fair value. Under the comparable transaction method, transaction multiples based on total reserves acquired and average daily production were applied.

Current assets, accounts payable, revenues and royalties payable, current liabilities and debt - The fair value of the current assets and liabilities was equivalent to the carrying amount because of their short-term nature. The carrying value of long-term debt approximates fair value, as it is subject to short-term floating interest rates that approximate the rates available for those periods. Current assets include inventory that was transferred from EXCO to Compass. The fair value of transferred inventory was primarily based on a third party pricing system which contains current market prices for certain inventory items.

Gathering Assets - The fair value of gas gathering assets was determined based on a market approach using other recent transactions involving gathering and processing assets. The EBITDA multiple based on these market transactions was applied to the trailing twelve month EBITDA of the gas gathering assets in order to calculate fair value.

Asset Retirement Obligations - Asset retirement obligations represent the present value of the estimated amount to be incurred to plug, abandon and remediate the Company's proved producing properties at the end of their productive lives, in accordance with applicable state laws. The fair value was determined based on a discounted cash flow model, which included assumptions of the estimated current abandonment costs, discount rate, inflation rate, and timing associated with the incurrence of these costs.

Ability Re

On November 3, 2014, Front Street Cayman purchased Ability Re from Ability Re Holdings for $19.2. Upon the purchase, Ability Re was concurrently merged into Front Street Cayman, where Front Street Cayman was the surviving entity. The Ability Re acquisition consisted of approximately $368.0 of assets supporting two closed block long-term care reinsurance agreements and the associated capital. The acquired reinsurance agreements complement Front Street Cayman’s existing in force long-duration insurance liabilities.

The Company elected to use October 31, 2014 as the closing date for accounting purposes as Ability Re’s accounting close process is based on a month end close, there were zero business days between October 31 and November 3 and no material transactions took place between the accounting close date and November 3, 2014.

The following table summarizes the consideration paid by Front Street Cayman for Ability Re:

Cash paid at November 3, 2014 close	$17.9	
Cash purchase price adjustments	(1.5	)
Contingent consideration premium increase benefit	2.8	
Total consideration	$19.2	

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Net Assets Acquired

The following table summarizes the preliminary amounts recognized at fair value for each major class of assets acquired and liabilities assumed as of October 31, 2014:

Purchase price allocation	Preliminary Valuation October 31, 2014
Assets acquired:	
Investments	$0.1
Cash and cash equivalents	8.4
Funds withheld	359.5
Total assets acquired	368.0
Liabilities assumed:	
Insurance reserves	346.9
Other liabilities	1.9
Total liabilities assumed	348.8
Net assets acquired	$19.2

The Company performed a valuation of the assets acquired and liabilities assumed at October 31, 2014. A summary of key inputs is as follows:

Funds withheld assets - The fair value of the funds withheld assets was based on the fair values of the securities in the underlying funds withheld portfolio held in trust by the cedant.

Insurance reserves - The fair value of insurance reserves was determined based on a discounted cash flow model, which included assumptions related to future premium rates and benefit costs, including assumptions for lapse, mortality, maintenance expense and a margin for potential adverse deviations. The discount rate was based on prevailing risk free rates adjusted for credit spreads and expected return on capital.

Tell Manufacturing

On October 1, 2014, Spectrum Brands completed the acquisition of Tell, a leading manufacturer and distributor of commercial doors, locks and hardware. The preliminary value of the consideration given in this acquisition, net of working capital adjustments, was $30.3.

Preliminary Valuation of Assets and Liabilities

The assets acquired and liabilities assumed in the Tell acquisition have been measured at their fair values at October 1, 2014 as set forth below. The excess of the purchase price over the fair values of the net tangible assets and identifiable intangible assets was recorded as goodwill, which includes value associated with the assembled workforce including an experienced research team, and is expected to be deductible for income tax purposes.

The preliminary fair values recorded for the assets acquired and liabilities assumed for Tell were as follows:

	Preliminary Valuation October 1, 2014
Cash	$1.1
Accounts receivable	5.4
Inventories	7.2
Prepaid expense	0.6
Property, plant and equipment, net	1.5
Intangible assets	12.5
Total assets acquired	28.3
Total liabilities assumed	5.1
Total identifiable net assets less goodwill	23.2
Goodwill	7.1
Total identifiable net assets	$30.3

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Preliminary Valuation Adjustments

Spectrum Brands performed a preliminary valuation of the acquired inventories, property, plant and equipment, trade name and customer relationships at October 1, 2014. A summary of the significant key inputs is as follows:

Inventories - replacement cost approach was applied to estimate the fair value of the raw materials inventory. Finished goods were valued at estimated selling price less the sum of costs of disposal and reasonable profit on value added the completion and disposal effort.

Property, plant and equipment - the cost approach was utilized to value approximately 97.0% of the property, plant and equipment by fair value. The sales comparison approach was utilized to value the remaining 3.0% of the property, plant and equipment by fair value.

Intangible assets - trade name - Spectrum Brands valued an indefinite-lived trade name using the income approach, specifically the relief from royalty method. Under this method, the asset value was determined by estimating the hypothetical royalties that would have to be paid if the trade name was not owned. Royalty rates were selected based on consideration of several factors, including prior transactions of Tell, related trademarks and trade names, other similar trademark licensing and transaction agreements and the relative profitability and perceived contribution of the trade name. Trade name was valued at $4.0 under this approach.

Intangible assets - customer relationships - Spectrum Brands valued customer relationships using the income approach, specifically the multi-period excess earnings method. In determining the fair value of the customer relationships, the multi-period excess earnings approach values the intangible asset at the present value of the incremental after-tax cash flows attributable only to the customer relationship after deducting contributory asset charges. The incremental after-tax cash flows attributable to the subject intangible asset are then discounted to their present value. Only expected sales from current customers were used, which included an annual expected growth rate of 2.5% to 7.1%. The Company assumed a customer retention rate of approximately 90%, which was supported by historical retention rates. Income taxes were estimated at 38% and amounts were discounted using a rate of 20%. The customer relationships were valued at $8.5 under this approach and will be amortized over 13 years.

None of the acquisitions discussed above, both individually and in the aggregate, were considered to be significant.

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(4) Investments

The Company’s consolidated investments are summarized as follows:

	December 31, 2014				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value
Fixed-maturity securities, available-for sale					
Asset-backed securities	$1,862.9	$8.3	$(32.1)	$1,839.1	$1,839.1
Commercial mortgage-backed securities	649.4	20.0	(1.0)	668.4	668.4
Corporates	9,265.8	550.6	(95.0)	9,721.4	9,721.4
Hybrids	1,268.7	55.6	(22.8)	1,301.5	1,301.5
Municipals	1,221.5	143.2	(2.8)	1,361.9	1,361.9
Residential mortgage-backed securities	2,095.4	124.6	(18.1)	2,201.9	2,201.9
U.S. Government	576.1	8.3	(0.8)	583.6	583.6
Total fixed maturities	16,939.8	910.6	(172.6)	17,677.8	17,677.8
Equity securities					
Available-for-sale	607.4	25.3	(6.8)	625.9	625.9
Held for trading	112.8	30.4	(51.7)	91.5	91.5
Total equity securities	720.2	55.7	(58.5)	717.4	717.4
Derivatives	191.4	124.0	(9.2)	306.2	306.2
Asset-based loans	791.9	—	—	791.9	791.9
Other invested assets	247.0	—	—	247.0	247.0
Total investments	$18,890.3	$1,090.3	$(240.3)	$19,740.3	$19,740.3

	September 30, 2014				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Carrying Value
Fixed-maturity securities, available-for-sale					
Asset-backed securities	$1,800.8	$10.9	$(18.8)	$1,792.9	$1,792.9
Commercial mortgage-backed securities	617.6	21.3	(2.0)	636.9	636.9
Corporates	9,345.5	499.2	(48.9)	9,795.8	9,795.8
Hybrids	1,279.1	52.2	(15.2)	1,316.1	1,316.1
Municipals	1,149.9	116.2	(6.3)	1,259.8	1,259.8
Residential mortgage-backed securities	1,984.8	140.3	(11.1)	2,114.0	2,114.0
U.S. Government	291.0	6.4	(1.4)	296.0	296.0
Total fixed-maturity securities	16,468.7	846.5	(103.7)	17,211.5	17,211.5
Equity securities					
Available-for-sale	645.7	23.0	(5.1)	663.6	663.6
Held for trading	141.2	8.2	(44.9)	104.5	104.5
Total equity securities	786.9	31.2	(50.0)	768.1	768.1
Derivatives	177.7	123.3	(4.7)	296.3	296.3
Asset-based loans	811.6	—	—	811.6	811.6
Other invested assets	164.9	0.1	—	165.0	165.0
Total investments	$18,409.8	$1,001.1	$(158.4)	$19,252.5	$19,252.5

Included in accumulated other comprehensive income ("AOCI") were cumulative unrealized gains of $0.9 and unrealized losses of $1.9 related to the non-credit portion of other-than-temporary impairments ("OTTI") on non-agency residential mortgage-backed securities at December 31, 2014 and September 30, 2014, respectively. The non-agency residential mortgage-backed securities unrealized gains and losses represent the difference between

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amortized cost and fair value on securities that were previously impaired. There have been no impairments or write downs on any of the non-agency residential mortgage-backed securities purchased in 2014.
Securities held on deposit with various state regulatory authorities had a fair value of $15,555.0 and $15,009.3 at December 31, 2014 and September 30, 2014, respectively. FGL Insurance is domesticated in Iowa and 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.
FGL held no non-income producing investments during three months ended December 31, 2014 and 2013.
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 agreement liabilities. The collateral investments had a fair value of $566.1 and $573.2 at December 31, 2014 and September 30, 2014, respectively.
Maturities of Fixed-maturity Securities
The amortized cost and fair value of fixed maturity available-for-sale securities by contractual maturities, as applicable, are shown below. Actual maturities may differ from contractual maturities because issuers may have the right to call or pre-pay obligations.

	December 31, 2014	
	Amortized Cost	Fair Value
Corporates, Non-structured Hybrids, Municipal and U.S. Government securities:		
Due in one year or less	$302.3	$304.4
Due after one year through five years	2,786.2	2,830.0
Due after five years through ten years	2,899.6	2,990.6
Due after ten years	5,840.6	6,341.5
Subtotal	11,828.7	12,466.5
Other securities which provide for periodic payments:		
Asset-backed securities	1,862.9	1,839.1
Commercial-mortgage-backed securities	649.4	668.4
Structured hybrids	503.4	501.9
Residential mortgage-backed securities	2,095.4	2,201.9
Total fixed maturity available-for-sale securities	$16,939.8	$17,677.8

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Securities in an Unrealized Loss Position

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

	December 31, 2014					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	$834.2	$(16.1)	$499.2	$(16.0)	$1,333.4	$(32.1)
Commercial-mortgage-backed securities	57.9	(0.5)	0.3	(0.5)	58.2	(1.0)
Corporates	898.1	(32.0)	1,339.0	(63.0)	2,237.1	(95.0)
Equities	117.2	(3.6)	50.9	(3.2)	168.1	(6.8)
Hybrids	270.8	(4.9)	234.4	(17.9)	505.2	(22.8)
Municipals	9.4	(0.1)	194.3	(2.7)	203.7	(2.8)
Residential mortgage-backed securities	454.5	(10.2)	227.0	(7.9)	681.5	(18.1)
U.S. Government	—	—	58.8	(0.8)	58.8	(0.8)
Total available-for-sale securities	$2,642.1	$(67.4)	$2,603.9	$(112.0)	$5,246.0	$(179.4)
Total number of available-for-sale securities in an unrealized loss position		378		328		706

	September 30, 2014					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	$825.8	$(11.8)	$288.2	$(7.0)	$1,114.0	$(18.8)
Commercial mortgage-backed securities	160.3	(0.9)	0.4	(1.1)	160.7	(2.0)
Corporates	816.6	(16.3)	1,127.8	(32.6)	1,944.4	(48.9)
Equities	180.4	(2.2)	54.9	(2.9)	235.3	(5.1)
Hybrids	258.2	(2.3)	290.0	(12.9)	548.2	(15.2)
Municipals	—	—	264.9	(6.3)	264.9	(6.3)
Residential mortgage-backed securities	298.5	(5.8)	177.6	(5.3)	476.1	(11.1)
U.S. Government	37.3	(0.1)	81.7	(1.3)	119.0	(1.4)
Total available-for-sale securities	$2,577.1	$(39.4)	$2,285.5	$(69.4)	$4,862.6	$(108.8)
Total number of available-for-sale securities in an unrealized		319		310		629

loss position
At December 31, 2014 and September 30, 2014, securities in an unrealized loss position were primarily concentrated in investment grade corporate debt instruments.
At December 31, 2014 and September 30, 2014, securities with a fair value of $40.0 and $0.2, 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.
For the three months ended December 31, 2014 and 2013, FGL recognized no material impairment losses in operations. The portion of other-than-temporary impairments recognized in AOCI is disclosed in the unaudited Condensed Consolidated Statements of Comprehensive Loss.

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Asset-based Loans

Salus Capital Partners, LLC (“Salus”) portfolio of asset-based loans receivable, included in “Asset-based loans” in the unaudited Condensed Consolidated Balance Sheets as of December 31, 2014 and September 30, 2014, consisted of the following:

	December 31, 2014	September 30, 2014
Asset-based loans, net of deferred fees, by major industry:		
Electronics	$245.7	$245.4
Apparel	198.2	191.6
Jewelry	89.6	100.1
Home Furnishings	57.2	71.7
Manufacturing	54.1	56.9
Transportation	45.3	44.3
Sporting Goods	11.0	13.9
Other	98.3	94.9
Total asset-based loans	799.4	818.8
Less: Allowance for credit losses	7.5	7.2
Total asset-based loans, net	$791.9	$811.6

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, 2014 and 2013:

	Three months ended December 31,	
	2014	2013
Allowance for credit losses:		
Balance at beginning of period	$7.2	$5.2
Provision for credit losses	0.3	1.8
Balance at end of period	$7.5	$7.0

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, 2014 and September 30, 2014, Salus had no outstanding loans that were considered delinquent by Salus. As of December 31, 2014 and September 30, 2014, 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, 2014	$209.1	$108.5	$481.8	$—	$799.4
September 30, 2014	$195.3	$372.7	$250.8	$—	$818.8

At December 31, 2014, approximately $250.0 of par value or 31.6% of the Company’s total Asset-based loans, net balance represent a term loan receivable from a national electronics retailer. The aforementioned receivable balance is collateralized by various assets including inventory, real estate, receivables, machinery and equipment and intellectual property rights. The net exposure is $150.0 as there is non-qualifying participation of $100.0 by a third party. The Company believes that this receivable is adequately collateralized, however, as part of the Salus' monitoring process, the Company changed the internal risk rating of this loan from special mention to substandard. The Company has assessed the adequacy of its allowance for loan assets and believes the level of allowance for loan losses to be adequate to mitigate inherent losses in the portfolio.

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Mortgage Loans on Real Estate

Included in Other invested assets on the unaudited Condensed Consolidated Balance Sheets were Commercial mortgage loans ("CMLs") of $206.8 and $136.2, or approximately 1.0% and 0.7% of the Company's total investments as of December 31, 2014 and September 30, 2014, respectively. FGL primarily makes mortgage loans on income producing properties including hotels, industrial properties, retail buildings, multifamily properties and office buildings. FGL diversifies its CML portfolio by geographic region and property type to reduce concentration risk. Subsequent to origination, FGL continuously evaluates CMLs based on relevant current information to ensure properties are performing at a consistent and acceptable level to secure the related debt.

The distribution of CMLs, gross of valuation allowances, by property type and geographic region is reflected in the following tables:

	December 31, 2014			September 30, 2014		
	Gross Carrying Value	% of Total		Gross Carrying Value	% of Total	
Property Type:						
Industrial- General	$20.0	9.7	%	$—	—	%
Industrial- Warehouse	47.7	23.1	%	48.0	35.2	%
Multifamily	29.9	14.5	%	37.8	27.8	%
Office	76.0	36.7	%	44.6	32.7	%
Retail	33.2	16.0	%	5.8	4.3	%
Total	$206.8	100.0	%	$136.2	100.0	%
US Region:						
East North Central	$64.3	31.1	%	$27.8	20.4	%
Middle Atlantic	18.0	8.7	%	10.9	8.0	%
Pacific	61.2	29.6	%	61.5	45.1	%
South Atlantic	37.5	18.1	%	—	—	%
West North Central	5.8	2.8	%	5.8	4.3	%
West South Central	20.0	9.7	%	30.2	22.2	%
Total	$206.8	100.0	%	$136.2	100.0	%

FGL has a CML portfolio with 100% of all CMLs having a loan-to-value ("LTV") ratio of less than 75% at December 31, 2014 and September 30, 2014. As of December 31, 2014 all CMLs are current and have not experienced credit or other events which would require the recording of an impairment loss. FGL has not established a collective or specific CML valuation allowance as of December 31, 2014.

LTV and debt service coverage (“DSC”) ratios are measures commonly used to assess the risk and quality of mortgage loans. The LTV ratio, calculated at time of origination, is expressed as a percentage of the amount of the loan relative to the value of the underlying property. A LTV ratio in excess of 100% indicates the unpaid loan amount exceeds the underlying collateral. The DSC ratio, based upon the most recently received financial statements, is expressed as a percentage of the amount of a property’s net income to its debt service payments. A DSC ratio of less than 1.0 indicates that a property’s operations do not generate sufficient income to cover debt payments.

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The following table presents the recorded investment in CMLs by LTV and DSC ratio categories and estimated fair value by the indicated loan-to-value ratios at December 31, 2014 and September 30, 2014:

	Debt-Service Coverage Ratios >1.25	1.00 - 1.25	N/A (a)	Total Amount	% of Total		Estimated Fair Value	% of Total	
December 31, 2014									
LTV Ratios:									
Less than 50%	$44.3	$—	$0.8	$45.1	21.8	%	$45.1	21.8	%
50% to 60%	51.4	—	—	51.4	24.9	%	51.4	24.9	%
60% to 75%	90.3	20.0	—	110.3	53.3	%	110.3	53.3	%
Total mortgage loans on real estate	$186.0	$20.0	$0.8	$206.8	100.0	%	$206.8	100.0	%
September 30, 2014									
LTV Ratios:									
Less than 50%	$44.6	$—	$0.8	$45.4	33.3	%	$45.4	33.3	%
50% to 60%	19.9	—	—	19.9	14.6	%	19.9	14.6	%
60% to 75%	70.9	—	—	70.9	52.1	%	70.9	52.1	%
Total mortgage loans on real estate	$135.4	$—	$0.8	$136.2	100.0	%	$136.2	100.0	%

(a) N/A - Current financial information not available.

FGL recognizes a mortgage loan as delinquent when payments on the loan are greater than 30 days past due. At December 31, 2014, FGL had no CMLs that were delinquent in principal or interest payments. The following provides the current and past due composition of FGL's CMLs on real estate:

	December 31, 2014	September 30, 2014
Current to 30 days	$206.8	$136.2
Total carrying value	$206.8	$136.2

As of December 31, 2014, FGL's CML portfolio had no impairments, modifications or troubled debt restructuring.

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, 2014		2013	
Fixed maturity available-for-sale securities	$212.8		$191.8	
Equity available-for-sale securities	9.9		4.5	
Policy loans	0.2		0.2	
Invested cash and short-term investments	—		0.1	
Asset-based loans	9.3		7.4	
Other investments	3.1		0.8	
Gross investment income	235.3		204.8	
External investment expense	(4.5	)	(3.6	)
Net investment income	$230.8		$201.2	

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Net investment gains

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

	Three months ended December 31,	
	2014	2013
Net realized (losses) gains on fixed maturity available-for-sale securities	$(1.8)	$9.8
Realized gains on equity securities	3.2	5.4
Net realized gains on securities	1.4	15.2
Realized gains on certain derivative instruments	45.0	66.8
Unrealized gains on certain derivative instruments	0.5	60.6
Change in fair value of other embedded derivatives	0.6	—
Change in fair value of derivatives	46.1	127.4
Realized gains (losses) on other invested assets	4.5	(0.7)
Net investment gains	$52.0	$141.9

For the three months ended December 31, 2014, principal repayments, calls, tenders, and proceeds from the sale of fixed maturity available-for-sale securities totaled $809.6, gross gains on such sales totaled $10.5 and gross losses totaled $14.3. The proceeds from the sale of fixed maturity available-for sale securities exclude maturities and repayments for the three months ended December 31, 2014.

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. The proceeds from the sale of fixed maturity available-for sale securities exclude maturities and repayments for the three months ended December 31, 2013.

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

	Three months ended December 31,	
	2014	2013
Proceeds from investments sold, matured or repaid:		
Available-for-sale	$854.1	$1,705.9
Derivatives and other	128.1	114.4
	$982.2	$1,820.3
Cost of investments acquired:		
Available-for-sale	$(1,371.8)	$(2,598.5)
Trading (acquired for holding)	—	(4.4)
Derivatives and other	(154.2)	(125.3)
	$(1,526.0)	$(2,728.2)

Concentrations of Investments

As of December 31, 2014 and September 30, 2014, the Company's most significant investment in one industry, excluding U.S. Government securities, was the Company's investment securities in the banking industry with a fair value of $2,217.7 or 11.2% and $2,240.3, or 11.6%, of the Company's invested assets portfolio, respectively. FGL's holdings in this industry includes investments in 80 different issuers with the top ten investments accounting for 39.3% of the total holdings in this industry. As of December 31, 2014 and September 30, 2014, the Company had investments in 6 and 4 issuers that exceeded 10% of the Company's stockholders' equity with a fair value of $1,011.0 and $768.5, or 5.1% and 4.0% of the invested assets portfolio, respectively. Additionally, the Company's largest concentration in any single issuer as of December 31, 2014 and September 30, 2014, had a fair value of $250.0 or 1.3% of the Company's invested assets portfolio.

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(5) Derivative Financial Instruments

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

Asset Derivatives	Classification	December 31, 2014	September 30, 2014
Derivatives designated as hedging instruments:			
Interest rate contracts	Other assets	$0.6	$0.6
Commodity swap and option agreements	Receivables, net	0.4	1.3
Foreign exchange contracts	Other assets	0.1	0.3
Foreign exchange contracts	Receivables, net	16.9	12.0
Total asset derivatives designated as hedging instruments		18.0	14.2
Derivatives not designated as hedging instruments:			
Commodity contracts	Receivables, net	19.5	1.9
Call options	Derivatives	306.2	296.3
Other embedded derivatives	Other invested assets	11.8	11.2
Foreign exchange contracts	Receivables, net	0.3	0.5
Total asset derivatives		$355.8	$324.1

Liability Derivatives	Classification	December 31, 2014	September 30, 2014
Derivatives designated as hedging instruments:			
Interest rate contracts	Accounts payable and other current liabilities	$1.9	$1.8
Commodity contracts	Accounts payable and other current liabilities	0.8	0.1
Total liability derivatives designated as hedging instruments		2.7	1.9
Derivatives not designated as hedging instruments:			
Commodity contracts	Other liabilities	0.1	0.3
FIA embedded derivative	Contractholder funds	2,140.2	1,908.1
Futures contracts	Other liabilities	1.9	0.5
Foreign exchange forward contracts	Accounts payable and other current liabilities	2.6	0.1
Total liability derivatives		$2,147.5	$1,910.9

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, 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 unaudited 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 unaudited Condensed Consolidated Statements of Operations.

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During the three months ended December 31, 2014 and 2013, the Company recognized the following gains and losses on these derivatives:

Classification	Derivatives Not Designated as Hedging Instruments	Three months ended December 31, 2014	2013
Revenues:			
Net investment gains	Call options	$41.3	$114.3
	Futures contracts	4.2	13.1
	Change in fair value of other embedded derivatives	0.6	—
Operating costs and expenses:			
Cost of consumer products and other goods sold	Commodity contracts	$—	$(0.1)
Benefits and other changes in policy reserves	FIA embedded derivatives	232.1	100.3
Other income and expense:			
Loss from the change in the fair value of the equity conversion feature of preferred stock	Equity conversion feature of preferred stock	$—	$(47.2)
Other income (expense), net	Oil and natural gas commodity contracts	18.7	(3.4)
	Foreign exchange contracts	(1.7)	0.8

Additional Disclosures

Cash Flow Hedges

When it deems appropriate, Spectrum Brands has used interest rate swaps to manage its interest rate risk. The swaps are designated as cash flow hedges with the changes in fair value recorded in AOCI and as a derivative hedge asset or liability, as applicable. The swaps settle periodically in arrears with the related amounts for the current settlement period payable to, or receivable from, the counter-parties included in accrued liabilities or receivables, respectively, and recognized in earnings as an adjustment to interest expense from the underlying debt to which the swap is designated. At December 31, 2014 and September 30, 2014, Spectrum Brands had a series of U.S. dollar denominated interest rate swaps outstanding which effectively fix the interest on floating rate debt, exclusive of lender spreads, at 1.36% for a notional principal amount of $300.0 through April 2017. The derivative net loss on these contracts recorded in AOCI by Spectrum Brands at December 31, 2014 and September 30, 2014 was $0.5 and $0.4, respectively, net of tax and noncontrolling interest. At December 31, 2014 and September 30, 2014, the portion of derivative net loss estimated to be reclassified from AOCI into earnings by Spectrum Brands over the next 12 months was $0.9 and $0.8, respectively, net of tax and noncontrolling interest.

Spectrum Brands periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign currency denominated third party and intercompany sales or payments. These obligations generally require Spectrum Brands to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Australian Dollars, Brazilian Reals, Mexican Pesos, Canadian Dollars or Japanese Yen. These foreign exchange contracts are cash flow hedges of fluctuating foreign exchange related to sales of product or raw material purchases. Until the sale or purchase is recognized, the fair value of the related hedge is recorded in AOCI and as a derivative hedge asset or liability, as applicable. At the time the sale or purchase is recognized, the fair value of the related hedge is reclassified as an adjustment to "Net consumer and other product sales" or purchase price variance in "Cost of consumer products and other goods sold." At December 31, 2014, Spectrum Brands had a series of foreign exchange derivative contracts outstanding through March 2016 with a contract value of $157.0. The derivative net gain on these contracts recorded in AOCI at December 31, 2014 was $7.3, net of tax expense of $2.7. At December 31, 2014, the portion of derivative net gains estimated to be reclassified from AOCI into earnings over the next twelve months was $7.3, net of tax. 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

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also affects earnings. The swaps effectively fix the floating price on a specified quantity of raw materials through a specified date. At December 31, 2014, Spectrum Brands had a series of zinc swap contracts outstanding through March 2016 for 7 thousand tons with a contract value of $14.7. At December 31, 2014, Spectrum Brands had a series of brass swap contracts outstanding through March 2016 for 1 thousand tons with a contract value of $6.3. The derivative net loss on these contracts recorded in AOCI at December 31, 2014 was $0.2, net of tax. At December 31, 2014, the portion of derivative net loss estimated to be reclassified from AOCI into earnings over the next twelve months is $0.2, net of tax.

Fair Value Contracts

Spectrum Brands

Spectrum Brands periodically enters into forward and swap foreign exchange contracts to economically hedge the risk from third party and intercompany payments resulting from existing obligations. These obligations generally require Spectrum Brands to exchange foreign currencies for U.S. Dollars, Canadian Dollars, Euros or Australian Dollars. These foreign exchange contracts are fair value hedges of a related liability or asset recorded in the accompanying unaudited 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, 2014 and September 30, 2014, Spectrum Brands had $313.7 and $108.9, 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, 2014, Spectrum Brands had a series of such swap contracts outstanding through September 2015 for 20 troy ounces with a contract value of $0.3. At September 30, 2014, Spectrum Brands had a series of such swap contracts outstanding through September 2015 for 25 troy ounces with a contract value of $0.4.

Oil and natural gas commodity contracts

Compass enters into derivative financial instruments as it deems appropriate. Compass’ primary objective in entering into derivative financial instruments is to manage its exposure to commodity price fluctuations, protect its returns on investments and achieve a more predictable cash flow in connection with its operations. These transactions limit exposure to declines in commodity prices, but also limit the benefits Compass would realize if commodity prices increase. When prices for oil and natural gas are volatile, a significant portion of the effect of its 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 Compass terminates a contract prior to its expiration. Compass does not designate its derivative financial instruments as hedging instruments for financial reporting purposes and, as a result, Compass recognizes the change in the respective instruments’ fair value in earnings.

Settlements in the normal course of maturities of derivative financial instrument contracts result in cash receipts from, or cash disbursements to, Compass' derivative contract counterparties. Changes in the fair value of Compass' derivative financial instrument contracts, which includes both cash and non-cash changes in fair value, are included in earnings with a corresponding increase or decrease in the unaudited Condensed Consolidated Balance Sheets fair value amounts.

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

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The following table presents Compass' volumes and fair value of the oil derivative financial instrument as of December 31, 2014 (presented on a calendar-year basis):

(in millions, except volumes and prices)	Volume Mmmbtus/Mbbls	Weighted average strike price per Mmbtu/Bbl	Fair Value at December 31, 2014
Natural gas swaps:			
2015	10,950	$3.95	$10.0
Oil swaps:			
2015	250	$94.98	9.5
Total oil and natural gas derivatives			$19.5

At September 30, 2014, Compass had outstanding derivative contracts to mitigate price volatility covering 6,821 Billion British Thermal Units ("Mmmbtus") of natural gas and 254 Thousand Barrels ("Mbbls") of oil. At December 31, 2014, the average forward NYMEX oil prices per Bbl for the remainder of 2015 was $56.26, and the average forward NYMEX natural gas prices per Mmbtu for 2015 was $3.01.

Compass derivative financial instruments covered approximately 71% and 84% of production volumes for the three months ended December 31, 2014 and December 31, 2013, respectively.

Other Embedded Derivatives

On June 16, 2014, FGL invested in a $35.0 fund-linked note issued by Nomura International Funding Pte. Ltd. The note provides for an additional payment at maturity based on the value of a hypothetical investment in AnchorPath Dedicated Return Fund (the "AnchorPath Fund") of $11.3 which was based on the actual return of the fund. At December 31, 2014 the fair value of the embedded derivative was $11.8 and the fair value of the fund-linked note was $22.7. At maturity of the fund-linked note, FGL will receive the $35.0 face value of the note plus the value of the hypothetical investment in the AnchorPath Fund. The additional payment at maturity is an embedded derivative reported in "Other invested assets", while the host is an available-for-sale security reported in "Fixed maturities" within the accompanying unaudited Condensed Consolidated Balance Sheets.

Credit Risk

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

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

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

		December 31, 2014				September 30, 2014			
Counterparty	Credit Rating (Fitch/Moody's/S&P) (a)	Notional Amount	Fair Value	Collateral	Net Credit Risk	Notional Amount	Fair Value	Collateral	Net Credit Risk
Merrill Lynch	A/*/A	$2,004.8	$74.6	$38.4	$36.2	$2,239.9	$92.7	$52.5	$40.2
Deutsche Bank	A+/A3/A	3,205.6	123.0	95.8	27.2	2,810.0	108.0	72.5	35.5
Morgan Stanley	*/A3/A	2,681.8	96.9	79.0	17.9	2,294.7	85.0	63.0	22.0
Barclay's Bank	A/A2/A	259.3	11.7	—	11.7	258.0	10.6	—	10.6
		$8,151.5	$306.2	$213.2	$93.0	$7,602.6	$296.3	$188.0	$108.3

(a) An * represents credit ratings that were not available.

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Collateral Agreements

FGL is required to maintain minimum ratings as a matter of routine practice under its over-the-counter derivative agreements on ISDA forms. 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, 2014 and September 30, 2014, counterparties posted $213.2 and $188.0 of collateral, of which $174.8 and $135.5, respectively, is included in "Cash and cash equivalents," with an associated payable for this collateral included in "Other liabilities" in the unaudited Condensed Consolidated Balance Sheets. The remaining $38.4 and $52.5 of non-cash collateral was held by a third-party custodian at December 31, 2014 and September 30, 2014, 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 $93.0 and $108.3 at December 31, 2014 and September 30, 2014, respectively.

FGL held 1,627 and 2,348 futures contracts at December 31, 2014 and September 30, 2014, 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 unaudited Condensed Consolidated Balance Sheets. The amount of cash collateral held by the counterparties for such contracts was $7.4 and $10.8 at December 31, 2014 and September 30, 2014, respectively.

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(6) Fair Value of Financial Instruments

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

	December 31, 2014				September 30, 2014			
	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3	Fair Value
Assets								
Contingent purchase price reduction receivable	$—	$—	$41.5	$41.5	$—	$—	$41.5	$41.5
Derivatives:								
Interest rate contracts	—	0.6	—	0.6	—	0.6	—	0.6
Commodity swap and option agreements	—	19.9	—	19.9	—	3.2	—	3.2
Foreign exchange forward agreements	—	17.3	—	17.3	—	12.8	—	12.8
Call options and futures contracts	—	306.2	—	306.2	—	296.3	—	296.3
Fixed maturity securities, available-for-sale:								
Asset-backed securities	—	1,804.5	34.6	1,839.1	—	1,755.9	37.0	1,792.9
Commercial mortgage-backed securities	—	548.0	120.4	668.4	—	553.8	83.1	636.9
Corporates	—	8,813.8	907.6	9,721.4	—	8,945.8	850.0	9,795.8
Hybrids	—	1,301.5	—	1,301.5	—	1,316.1	—	1,316.1
Municipals	—	1,323.1	38.8	1,361.9	—	1,222.6	37.2	1,259.8
Residential mortgage-backed securities	—	2,201.9	—	2,201.9	—	2,114.0	—	2,114.0
U.S. Government	401.6	182.0	—	583.6	115.6	180.4	—	296.0
Equity securities:								
Available-for-sale	57.1	562.7	6.1	625.9	59.2	598.4	6.0	663.6
Trading	91.5	—	—	91.5	104.5	—	—	104.5
Other invested assets	—	2.0	11.8	13.8	—	2.1	11.2	13.3
Funds withheld receivable (a)	—	512.6	—	512.6	—	154.4	—	154.4
Total financial assets	$550.2	$17,596.1	$1,160.8	$19,307.1	$279.3	$17,156.4	$1,066.0	$18,501.7
Liabilities								
Derivatives:								
FIA embedded derivatives, included in contractholder funds	$—	$—	$2,140.2	$2,140.2	$—	$—	$1,908.1	$1,908.1
Front Street future policyholder benefit liability	—	—	496.4	496.4	—	—	151.3	151.3
Foreign exchange forward agreements	—	2.6	—	2.6	—	0.1	—	0.1

and contracts								
Futures contracts	—	1.9	—	1.9	—	0.4	—	0.4