HRG GROUP, INC.
Form 10-K
November 20, 2015

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

Form 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2015
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

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

Delaware	74-1339132
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
450 Park Avenue, 29th Floor, New York, NY	10022
(Address of principal executive offices)	(Zip Code)

(212) 906-8555
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)
Harbinger Group Inc.
450 Park Avenue, 30th Floor, 10022
Securities Registered Pursuant to Section 12(b) of the Act:

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

Securities Registered Pursuant to Section 12(g) of the Act:
None.

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant’s most recently completed second fiscal quarter, March 31, 2015, was approximately $1,398.8 million. For the sole purpose of making this calculation, the term “non-affiliate” has been interpreted to exclude directors and executive officers and other affiliates of the registrant. Exclusion of shares held by any person should not be construed as a conclusion by the registrant, or an admission by any such person, that such person is an “affiliate” of the Company, as defined by applicable securities laws.

There were 201,397,256 shares of the registrant’s common stock outstanding as of November 16, 2015.

Documents Incorporated By Reference: The information required by Part III of this Form 10-K, to the extent not set forth herein or by amendment, is incorporated by reference from the registrant’s definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or prior to January 28, 2016.

HRG GROUP, INC.
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PART I

Unless otherwise indicated in Part I of this annual report on Form 10-K (this “Form10-K”) or the context requires otherwise, in this Form 10-K, references to the “Company,” “HRG,” “we,” “us” or “our” refer to HRG Group, Inc. (formerly, Harbinger Group Inc.) and, where applicable, its consolidated subsidiaries; “Asset Managers” refers collectively to the business conducted by CorAmerica, EIC, and Salus (each referred to individually as an “Asset Manager”);“Compass” refers to our oil and gas business, which we conduct through Compass Production GP, LLC (“Compass GP”) and Compass Production Partners, LP (“Compass Limited Partnership”) and, where applicable, their subsidiaries;“CorAmerica” refers to CorAmerica Capital, LLC and, where applicable, its consolidated subsidiaries; “EIC” refers to Energy & Infrastructure Capital, LLC and, where applicable, its consolidated subsidiaries; “FGH” refers to Fidelity & Guaranty Life Holdings, Inc. (formerly, Old Mutual U.S. Life Holdings, Inc.) and, where applicable, its consolidated subsidiaries; “FGL” refers to Fidelity & Guaranty Life (formerly, Harbinger F&G, LLC) and, where applicable, its consolidated subsidiaries; “Fiscal 2013” refers to the fiscal year ended September 30, 2013;“Fiscal 2014” refers to the fiscal year ended September 30, 2014; “Fiscal 2015” refers to the fiscal year ended September 30, 2015; “Fiscal 2016” refers to the fiscal year ended September 30, 2016;“Front Street” refers to Front Street Re (Delaware) Ltd. and, where applicable, its consolidated subsidiaries; “Front Street Cayman” refers to Front Street Re Cayman Ltd. and, where applicable, its consolidated subsidiaries; “HAMCO” refers to HGI Asset Management Holdings, LLC (which holds our interest in CorAmerica, EIC and Salus) and, where applicable, its consolidated subsidiaries; “HGI Energy” refers to HGI Energy Holdings, LLC (which holds our interests in Compass) and, where applicable, its consolidated subsidiaries; “HGI Funding” refers to HGI Funding, LLC and, where applicable, its consolidated subsidiaries;“Salus” refers to Salus Capital Partners, LLC and, where applicable, its consolidated subsidiaries; “SBI” refers to Spectrum Brands, Inc. and, where applicable, its consolidated subsidiaries; and “Spectrum Brands” refers to Spectrum Brands Holdings, Inc. and, where applicable, its consolidated subsidiaries. For a glossary of certain defined terms relating to Compass’ operations, please see Part I, Item 1. “Business - Our Operating Subsidiaries - Compass - Glossary of selected oil and natural gas terms” in this Form 10-K.

FORWARD-LOOKING STATEMENTS

CAUTIONARY STATEMENT FOR PURPOSES OF THE “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

This document contains, and certain oral statements made by our representatives from time to time may contain, forward-looking statements that are subject to risks and uncertainties that could cause actual results, events and developments to differ materially from those set forth in or implied by such statements. These statements are based on the beliefs and assumptions of HRG’s management and the management of HRG’s subsidiaries and affiliates (including target businesses). Forward-looking statements include information concerning possible or assumed future actions, events, results, strategies and expectations, including plans and expectations regarding future acquisitions, dispositions, distributions, and similar activities, and are generally identifiable by use of the words “believes,” “expects,” “intends,” “anticipates,” “plans,” “seeks,” “estimates,” “projects,” “may,” “will,” “could,” “might,” or “continues” or similar e
Such forward-looking statements are subject to risks and uncertainties that could cause actual results, events and developments to differ materially from those set forth in or implied by such statements. These statements are based on the beliefs and assumptions of HRG's management and the management of HRG's subsidiaries (including target businesses). Factors that could cause actual results, events and developments to differ include, without limitation: the ability of HRG's subsidiaries (including, target businesses following their acquisition) to generate sufficient net income and cash flows to make upstream cash distributions; the decision of the HRG subsidiaries' boards to make upstream cash distributions, which is subject to numerous factors such as restrictions contained in applicable financing agreements, state and regulatory restrictions and other relevant considerations as determined by the applicable board; HRG's liquidity, which may be impacted by a variety of factors, including the capital needs of HRG's current and future subsidiaries; capital market conditions; commodity market conditions; foreign exchange rates; HRG's and its subsidiaries' ability to identify, pursue or complete any suitable future acquisition or disposition opportunities, including realizing such transaction's expected benefits, efficiencies/cost avoidance or savings, income and margins, growth, economies of scale, streamlined/combined operations, economic performance and conditions to, and the

timetable for, completing applicable financial reporting requirements; litigation; potential and contingent liabilities; management's plans; changes in regulations; taxes; and the risks that may affect the performance of the operating subsidiaries of HRG.

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements. All forward-looking statements described herein are qualified by these cautionary statements and there can be no assurance that the actual results, events or developments referenced herein will occur or be realized. HRG does not undertake any obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operation results, except as required by law.

In addition, you should understand that the following important factors, in addition to those discussed in Part I, Item IA. “Risk Factors” of this report, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. You should also understand that many factors described under one heading below may apply to more than one section in which we have grouped them for the purpose of this presentation. As

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a result, you should consider all of the following factors, together with all of the other information presented herein, in evaluating the business of the Company and our subsidiaries.

HRG

HRG's actual results or other outcomes may differ from those expressed or implied by forward-looking statements contained or incorporated herein due to a variety of important factors, including, without limitation, the following:

- our dependence on distributions from our subsidiaries to fund our operations and payments on our debt and other obligations;
- the decision of our subsidiaries' boards to make upstream cash distributions, which is subject to numerous factors such as restrictions contained in applicable financing agreements, state and regulatory restrictions and other relevant considerations as determined by the applicable board;
- our and our subsidiaries' liquidity, which may be impacted by a variety of factors, including the capital needs of us and our current and future subsidiaries;
- limitations on our ability to successfully identify suitable acquisition, disposition and investment opportunities and to compete for these opportunities with others who have greater resources;
- the need to provide sufficient capital to our operating businesses;
- the impact of covenants in the indenture governing our 7.875% Senior Secured Notes due 2019 (the "7.875% Notes"), the covenants in the indenture governing our 7.750% Senior Notes due 2022 (the "7.750% Notes") and future financing or refinancing agreements, on our ability to operate our business and finance our pursuit of our business strategy;
- our ability to incur new debt and refinance our existing indebtedness;
- the impact on our business and financial condition of our substantial indebtedness and the significant additional indebtedness and other financing obligations we and our subsidiaries may incur;
- the impact on the aggregate value of our assets and our stock price from changes in the market prices of publicly traded equity interests we hold, particularly during times of volatility in security prices;
- the impact of additional material charges associated with our oversight of acquired or target businesses and the integration of our financial reporting;
- the impact of restrictive covenants and applicable laws, including securities laws, on our ability to dispose of equity interests we hold;
- the impact of decisions by our significant stockholders, whose interest may differ from those of our other stockholders, or any of them ceasing to remain significant stockholders;
- the effect any interests of our officers, directors, stockholders and their respective affiliates may have in certain transactions in which we are involved;
- our dependence on certain key personnel;
- the impact on us and/or our subsidiaries from interruption or other operational failures in telecommunication, information technology and other operational systems, or a failure to maintain the security, integrity, confidentiality or privacy of sensitive data residing on such systems;
- our and our subsidiaries' ability to attract and retain key employees;
- the impact of potential losses and other risks from changes in the value of our assets;
- our ability to effectively increase the size of our organization, if needed, and manage our growth;
- the impact of a determination that we are an investment company or personal holding company;
- the impact of claims or litigation arising from operations, agreements and transactions, including litigation arising from or involving former subsidiaries;
- the impact of expending significant resources in considering acquisition or disposition targets or business opportunities that are not consummated;
- our ability to successfully integrate current and future acquired businesses into our existing operations and achieve the expected economic benefits;
- tax consequences associated with our acquisition, holding and disposition of target companies and assets;
- the impact of delays or difficulty in satisfying the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 or negative reports concerning our internal controls;

- the impact of the relatively low market liquidity for our shares of Common Stock (“Common Stock”);
- the impact on the holders of our Common Stock if we issue additional shares of our Common Stock or preferred stock; and

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- the effect of price fluctuations in our Common Stock caused by general market and economic conditions and a variety of other factors, including factors that affect the volatility of the common stock of any of our publicly-held subsidiaries.

Spectrum Brands

Spectrum Brands' actual results or other outcomes may differ materially from those expressed or implied by the forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- the impact of Spectrum Brands' substantial indebtedness on its business, financial condition and results of operations;
- the impact of restrictions in Spectrum Brands' debt instruments on its ability to operate its business, finance its capital needs or pursue or expand its business strategies;
- any failure to comply with financial covenants and other provisions and restrictions of Spectrum Brands' debt instruments;
- the impact of expenses resulting from the implementation of new business strategies, divestitures or current and proposed restructuring activities;
- Spectrum Brands' inability to successfully integrate and operate new acquisitions at the level of financial performance anticipated;
- the unanticipated loss of key members of Spectrum Brands' senior management;
- the impact of fluctuations in commodity prices, costs or availability of raw materials or terms and conditions available from suppliers, including suppliers' willingness to advance credit;
- interest rate and exchange rate fluctuations;
- the loss of, or a significant reduction in, sales to any significant retail customer(s);
- competitive promotional activity or spending by competitors or price reductions by competitors;
- the introduction of new product features or technological developments by competitors and/or the development of new competitors or competitive brands;
- the effects of general economic conditions, including inflation, recession or fears of a recession, depression or fears of a depression, labor costs and stock market volatility or changes in trade, monetary or fiscal policies in the countries where Spectrum Brands does business;
- changes in consumer spending preferences and demand for Spectrum Brands' products;
- Spectrum Brands' ability to develop and successfully introduce new products, protect its intellectual property and avoid infringing the intellectual property of third parties;
- Spectrum Brands' ability to successfully implement, achieve and sustain manufacturing and distribution cost efficiencies and improvements, and fully realize anticipated cost savings;
- the cost and effect of unanticipated legal, tax or regulatory proceedings or new laws or regulations (including environmental, public health and consumer protection regulations);
- public perception regarding the safety of Spectrum Brands' products, including the potential for environmental liabilities, product liability claims, litigation and other claims;
- the impact of pending or threatened litigation;
- changes in accounting policies applicable to Spectrum Brands' business;
- government regulations;
- the seasonal nature of sales of certain of Spectrum Brands' products;
- the effects of climate change and unusual weather activity; and
- the effects of political or economic conditions, terrorist attacks, acts of war or other unrest in international markets.

FGL and Front Street

FGL's and Front Street's actual results or other outcomes may differ from those expressed or implied by forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- the ability to satisfy the closing conditions, including regulatory approvals, contained in the Agreement and Plan of Merger (the “FGL Merger Agreement” and such merger, the “FGL Merger”), by and among FGL, Anbang

Insurance Group Co., Ltd., a joint-stock insurance company established in the People's Republic of China ("Anbang"), AB Infinity Holding, Inc., a Delaware corporation and a wholly-owned subsidiary of Anbang ("AB Infinity"), and AB Merger Sub, Inc., a Delaware corporation and a newly formed, wholly-owned subsidiary of AB Infinity ("Merger Sub");

- impact on the stock price, business, financial condition and results of operations if the FGL Merger is not consummated or not consummated timely;
- the impact of the operating restrictions in the FGL Merger Agreement and their impact on FGL;
- litigation arising from the FGL Merger;
- the accuracy of FGL's and Front Street's assumptions and estimates;
- the accuracy of FGL's and Front Street's assumptions regarding the fair value and future performance of their investments;
- FGL and its insurance subsidiaries' abilities to maintain or improve their financial strength ratings;
- FGL's and Front Street's and their insurance subsidiaries' potential need for additional capital to maintain their financial strength and credit ratings and meet other requirements and obligations;
- FGL's and Front Street's ability to defend themselves against or respond to, potential litigation, enforcement investigations or increased regulatory scrutiny;
- FGL's and Front Street's ability to manage their businesses in a highly-regulated industry, which is subject to numerous legal restrictions and regulations;
- regulatory changes or actions, including those relating to regulation of financial services, affecting (among other things) underwriting of insurance products and regulation of the sale, underwriting and pricing of products and minimum capitalization and statutory reserve requirements for insurance companies, or the ability of FGL's and Front Street's insurance subsidiaries to make cash distributions to FGL or Front Street, as applicable (including dividends or payments on surplus notes FGL's subsidiaries issue to FGL);
- the impact of potential litigation, including class action litigation;
- the impact of FGL's reinsurers failing to meet or timely meet their assumed obligations, increasing their reinsurance rates, or becoming subject to adverse developments that could materially adversely impact their ability to provide reinsurance to FGL at consistent and economical terms;
- restrictions on FGL's ability to use captive reinsurers;
- FGL being forced to sell investments at a loss to cover policyholder withdrawals;
- the impact of interest rate fluctuations on FGL and Front Street and withdrawal demands in excess of FGL's and Front Street's assumptions;
- the impact of market and credit risks;
- equity market volatility;
- credit market volatility or disruption;
- changes in the federal income tax laws and regulations which may affect the relative income tax advantages of FGL's products;
- the performance of third parties, including independent distributors, underwriters, actuarial consultants and other service providers;
- interruption or other operational failures in telecommunication, information technology and other operational systems, or a failure to maintain the security, integrity, confidentiality or privacy of sensitive data residing on such systems;
- the continued availability of capital required for FGL's and Front Street's insurance subsidiaries to grow;
- the impact on FGL's or Front Street's business of new accounting rules or changes to existing accounting rules;
- the risk that FGL's or Front Street's exposure to unidentified or unanticipated risk is not adequately addressed by their risk management policies and procedures;
- general economic conditions and other factors, including prevailing interest and unemployment rate levels and stock and credit market performance;
- FGL's ability to protect its intellectual property;
- difficulties arising from FGL's and Front Street's outsourcing relationships;
- the impact on FGL's and Front Street's business of natural and of man-made catastrophes, pandemics, computer viruses, network security breaches, and malicious and terrorist acts;

- FGL's and Front Street's ability to compete in a highly competitive industry;
- FGL's and Front Street's ability to maintain competitive policy expense costs;

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- adverse consequences if the independent contractor status of FGL's independent insurance marketing organizations ("IMOs") is successfully challenged;
- FGL's ability to attract and retain national marketing organizations and independent agents;
- the potential adverse tax consequences to FGL if FGL generates passive income in excess of operating expenses;
- the significant operating and financial restrictions contained in FGL's debt agreements, which may prevent FGL from capitalizing on business opportunities;
- the inability of FGL's and Front Street's subsidiaries and affiliates to generate sufficient cash to service all of their obligations;
- conflicts of interest between HRG or its affiliates;
- the impact on FGL of non-performance of loans originated by Salus;
- the ability of FGL's and Front Street's subsidiaries to pay dividends; and
- the ability to maintain or obtain approval of the Iowa Insurance Division ("IID") and other regulatory authorities as required for FGL's operations and those of its insurance subsidiaries.

The Asset Managers

The Asset Managers' actual results or other outcomes may differ from those expressed or implied by the forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- their respective abilities, as applicable, to recover amounts that are contractually owed to them by their borrowers;
- their respective abilities to continue to find attractive business opportunities;
- their respective abilities to address a number of issues to implement their respective business strategies;
- the impact on these businesses resulting from deterioration in economic conditions;
- their respective abilities to compete with traditional competitors and new market entrants; and
- their respective abilities to address a variety of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft, operational errors and systems malfunctions.

Compass

Compass' actual results or other outcomes may differ from those expressed or implied by the forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- fluctuations in oil, natural gas liquids and natural gas prices sold by Compass;
- the impact of Compass' substantial indebtedness on its business, financial condition and results of operations;
- changes in the differential between the New York Mercantile Exchange ("NYMEX") or other benchmark prices of oil, natural gas liquids and natural gas and the reference or regional index price used to price Compass' actual oil and natural gas sales;
- Compass' ability to operate successfully as an independent business;
- Compass' ability to replace natural gas marketing services upon the expiration of the current arrangements with EXCO;
- the impact on Compass if it is unable to successfully execute or consummate one or more disposition, acquisition or reserve development opportunities;
- Compass' ability to market and sell its oil, natural gas liquids and natural gas and its exposure to the credit risk of its customers, working interest owners and other counterparties and the risks associated with drilling activities;
- the inherent uncertainty of estimates of oil and natural gas reserves;
- the risk that Compass will be unable to identify or complete, or complete on economically attractive terms, suitable disposition and/or acquisition opportunities of oil and gas properties;
- Compass' ability to successfully operate in a highly regulated and litigious environment, including exposure to operating hazards and uninsured risks;
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- Compass' ability to effectively mitigate the impact of commodity price volatility from its cash flows with its hedging strategy;
- changes in the U.S. federal income tax laws and regulations that may affect the relative income tax advantages of Compass’ products;

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- the impact of future and existing environmental regulations;
- the effects of climate change and unusual weather activity;
- the intense competition in the oil and gas industry, including acquiring properties, contracting for drilling equipment and hiring experienced personnel; and
- the unavailability of pipelines or other facilities interconnected to Compass' gathering and transportation pipelines.

We caution the reader that undue reliance should not be placed on any forward-looking statements, which speak only as of the date of this document. Neither we nor any of our subsidiaries undertake any duty or responsibility to update any of these forward-looking statements to reflect events or circumstances after the date of this document or to reflect actual outcomes.

Item 1. Business

OVERVIEW

HRG

We are a diversified holding company focused on owning businesses that we believe can generate sustainable free cash flow or attractive returns on investment. As of September 30, 2015, our principal operating subsidiaries include the following assets: (i) Spectrum Brands, our subsidiary that provides global branded consumer products; (ii) FGL, our subsidiary that provides life insurance and annuity products; (iii) Front Street, our subsidiary engaged in the business of providing long-term reinsurance, including reinsurance to the specialty insurance sector of fixed, deferred and payout annuities; (iv) HAMCO, which, through its subsidiaries, provides financing and engages in asset management across a range of industries; and (v) Compass, our subsidiary that is engaged in the business of owning, operating, acquiring, exploiting and developing conventional oil and natural gas assets.

We currently operate our business in four reporting segments: Consumer Products, Insurance, Energy, and Asset Management. For the results of operations by segment and other segment data, see Part IV, Item 15. "Note 26, Segment and Geographic Data to HRG's Consolidated Financial Statements" included elsewhere in this report.

On October 8, 2015, Compass Energy Operating, LLC ("Compass Energy" or "MLP LLC"), a wholly owned subsidiary, entered into a purchase agreement with a third-party (the "Compass Asset Buyer"), pursuant to which the Compass Asset Buyer agreed to purchase certain of Compass Energy's oil and gas interests located in the Holly, Waskom and Danville Fields in East Texas and North Louisiana for a cash purchase price of $160.0 million, subject to adjustments for title and environmental defects and revenues and expenses attributable to periods after July 1, 2015. Proceeds from the transaction are expected to be used to reduce borrowings under Compass Energy's existing credit facility. The transaction is subject to customary closing conditions and is expected to close, subject to satisfaction of such closing conditions, on or about December 1, 2015. The parties may terminate the purchase agreement at any time following December 31, 2015 if closing has not occurred by such date.

On November 8, 2015, FGL, Anbang, AB Infinity, and Merger Sub entered into the FGL Merger Agreement. Pursuant to the FGL Merger Agreement and subject to the terms and conditions set forth therein, Merger Sub will merge with and into FGL, with FGL continuing as the surviving entity, which will become a direct, wholly-owned subsidiary of AB Infinity and an indirect, wholly-owned subsidiary of Anbang. Pursuant to the FGL Merger Agreement, at the effective time of the FGL Merger, each issued and outstanding share of FGL common stock will be cancelled and converted automatically into the right to receive $26.80 in cash, without interest, other than any shares of common stock owned by FGL as treasury stock or otherwise or owned by Anbang, AB Infinity or Merger Sub (which will be cancelled and no payment will be made with respect thereto), shares of common stock granted pursuant to FGL's equity plans and those shares of common stock with respect to which appraisal rights under Delaware law are properly exercised and not withdrawn. See Part I, Item I. "Business-Our Operating Subsidiaries-FGL-the FGL Merger."

For detailed information about revenues, operating income and total assets of HRG and its operating subsidiaries, see the financial statements beginning on page F-1 and S-1, respectively, of this report.

We were incorporated in Delaware in 1954 under the name Zapata Corporation and reincorporated in Nevada in April 1999 under the same name. On December 23, 2009, we reincorporated in Delaware under the name Harbinger Group Inc. Effective March 9, 2015, we changed our name from Harbinger Group Inc. to HRG Group, Inc. Our Common

Stock trades on the New York Stock Exchange ("NYSE") under the symbol "HRG." Our principal executive offices are located at 450 Park Avenue, 29th Floor, New York, New York 10022.

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Strategy

We intend to maximize value for our stockholders by seeking businesses that we believe can generate sustainable free cash flow or attractive returns on investment. We intend to take a long-term view and have a disciplined approach. We intend to seek to acquire businesses that we believe are undervalued or fairly valued with attractive financial or strategic characteristics. We intend to dispose of businesses based on an assessment of a variety of factors, including availability of other opportunities for us to deploy our capital or otherwise maximize shareholder value, synergies amongst our existing businesses and other financial or strategic considerations. We may pursue these strategies directly at HRG or indirectly through one or more of our operating subsidiaries. Accordingly, we and our subsidiaries are continuously evaluating potential strategic opportunities, including acquisition, disposition or restructuring opportunities, each of which may, in the near or long term, have a significant impact on our, and our subsidiaries' overall business, liquidity and/or financial results.

We intend to take an active approach to managing the businesses in which we acquire a controlling interest. Such activities may include assembling senior management teams with the expertise to operate the businesses, providing management of such businesses with specific operating objectives, acquiring or combining complementary businesses or expanding existing operations and developing strategies and objectives with respect to the capital structure of such businesses. We bring an owner's perspective to our controlled businesses and we align our management teams' incentives with our goals as long-term stockholders.

Competition

In identifying, evaluating and selecting strategic opportunities, we may encounter intense competition from other entities having similar business objectives, such as strategic investors, private equity groups and special purpose acquisition corporations. Many of these entities are well established and have extensive experience identifying and effecting transactions directly or through affiliates. Many of these competitors may possess greater human and other resources than us, and our financial resources may be relatively limited when contrasted with many of these competitors. Any of these factors may place us at a competitive disadvantage in contrast to our competitors.

Employees

At September 30, 2015, HRG employed 22 persons and HRG's subsidiaries employed approximately 15,900 persons. In the normal course of business, HRG and its subsidiaries use contract personnel to supplement their employee base to meet business needs. As of September 30, 2015, none of HRG's employees were represented by labor unions or covered by collective bargaining agreements. See the remainder of this report for additional information regarding the employees of HRG's subsidiaries. HRG believes that its overall relationship with its employees is good.

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") are made available free of charge on or through our website at www.hrggroup.com as soon as reasonably practicable after such reports are filed with, or furnished to, the Securities and Exchange Commission (the "SEC" or the "Commission"). The information on our website is not, and shall not be deemed to be, part of this report or incorporated into any other filings we make with the Commission.

You may read and copy any materials we file with the Commission at the Commission's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a website that contains our reports, proxy statements and other information at www.sec.gov. In addition, copies of our Corporate Governance Guidelines, Audit Committee Charter, Compensation Committee Charter, Nominating and Corporate Governance Committee Charter, Code of Ethics, Code of Ethics for our Chief Executive and Senior Financial Officers and Executive Sessions policy are available at our website at www.hrggroup.com under "Investor Relations-Corporate Governance." Copies will also be provided to any HRG stockholder upon written request to Investor Relations, HRG Group, Inc. at 450 Park Avenue, 29th Floor, New York, NY 10022 or via electronic mail at investorrelations@hrggroup.com, or by contacting Investor Relations by telephone at (212) 906-8560. See Part I, Item 1. "Business-Our Operating Subsidiaries-Spectrum Brands-Available Information" for additional information regarding Spectrum Brands and Part I, Item 1. "Business-Our Operating Subsidiaries-FGL-Available Information" for additional information regarding FGL.

OUR OPERATING SUBSIDIARIES

Spectrum Brands

Spectrum Brands, a Delaware corporation and a subsidiary of HRG, is a diversified global branded consumer products company. Spectrum Brands is a wholly owned subsidiary of Spectrum Brands. Spectrum Brands' common stock trades on the NYSE under the symbol "SPB." As of September 30, 2015, HRG owned approximately 57.6% of Spectrum Brands' common stock.

Spectrum Brands manufactures, markets and/or distributes its products in approximately 160 countries in the North America, Europe, Middle East & Africa ("MEA"), Latin America and Asia-Pacific regions through a variety of trade channels, including

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retailers, wholesalers and distributors, original equipment manufacturers ("OEMs"), construction companies, and hearing aid professionals, and enjoy strong name recognition in Spectrum Brands' regions under Spectrum Brands' various brands and patented technologies. Spectrum Brands' diversified global branded consumer products have positions in seven major product categories: consumer batteries, small appliances, personal care, hardware and home improvement, pet supplies, home and garden and auto care. Spectrum Brands manages the businesses in five vertically integrated, product-focused segments: (i) Global Batteries & Appliances, (ii) Global Pet Supplies, (iii) Home and Garden, (iv) Hardware & Home Improvement and (v) Global Auto Care. Global and geographic strategic initiatives and financial objectives are determined at the corporate level. Each segment is responsible for implementing defined strategic initiatives and achieving certain financial objectives and has a general manager responsible for sales and marketing initiatives and the financial results for all product lines within that segment.

The following table summarizes the respective product types, brands, and regions for each of the segments:

Segment	Products	Brands	Regions
Global Batteries & Appliances	Consumer batteries: Alkaline, zinc carbon, and NiMH rechargeable batteries; hearing aid and other specialty battery products; battery powered portable lighting products. Small appliances: small kitchen and home appliances. Personal Care: electric shaving and grooming products, hair care appliances and accessories.	Consumer batteries: Rayovac, VARTA. Small appliances:Black & Decker, George Foreman, Russell Hobbs, Juiceman, Breadman, and Toastmaster. Personal Care: Remington.	North America Europe/MEA Latin America Asia-Pacific
Hardware & Home Improvement	Hardware and home improvement: Residential locksets and door hardware including hinges, security hardware, screen and storm door products, garage hardware, window hardware and floor protection; commercial doors, locks, and hardware; kitchen, bath and shower faucets and plumbing products.	Hardware and home improvement: Kwikset, Weiser, Baldwin, National Hardware, Stanley, Tell, Pfister.	North America Europe/MEA Latin America Asia-Pacific
Global Pet Supplies	Pet supplies: Dog, cat and small animal food and treats; clean-up and training aid products and accessories; pet health and grooming products; aquariums and aquatic health supplies.	Pet Supplies: 8-in-1, Dingo, Nature's Miracle, Wild Harvest, Littermaid, Tetra, Marineland, Whisper, Jungle, Instant Ocean, FURminator, IAMs, Eukanuba, Healthy-Hide, Digest-eeze.	North America Europe/MEA Latin America Asia-Pacific
Home and Garden	Home and garden: Household insecticides; insect and animal repellent products; insect and weed control solutions.	Home and garden: Cutter, Repel, Spectracide, Garden Safe, Liquid Fence, Hot Shot, Black Flag.	North America Latin America
Global Auto Care	Auto care: Aftermarket appearance products; performance chemicals & additives; do-it-yourself air conditioner recharge products.	Auto care: Armor All, STP, A/C PRO.	North America Europe/MEA Latin America Asia-Pacific

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

On May 21, 2015, Spectrum Brands completed the acquisition of Armored AutoGroup Parent, Inc. (“AAG”), a consumer products company consisting primarily of Armor All and STP products, two well recognizable brands in the automotive aftermarket appears products and performance chemicals categories, respectively; and the A/C Pro Brand of do-it-yourself automotive air conditioner recharge products.

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Spectrum Brands' Products

Net sales of each product category sold, as a percentage of net sales of Spectrum Brands consolidated operations for Fiscal 2015, 2014 and 2013, were as follows:

	2015		2014		2013	
Hardware and home improvement products	26	%	26	%	21	%
Consumer batteries	18	%	22	%	23	%
Small appliances	16	%	16	%	18	%
Pet supplies	16	%	14	%	15	%
Personal care products	11	%	12	%	13	%
Home and garden products	10	%	10	%	10	%
Auto care products	3	%	—	%	—	%
	100	%	100	%	100	%

Hardware and Home Improvement Products

In the hardware and home improvement product category, Spectrum Brands markets and sells a broad range of residential locksets and door hardware, including knobs, levers, deadbolts, handlesets and electronics. Spectrum Brands offers its security hardware under three main brands, Kwikset, Weiser and Baldwin.

Spectrum Brands also offers other hardware products that include hinges, security hardware, screen and storm door products, garage door hardware, window hardware and floor protection under the Stanley and National Hardware brand names throughout the U.S. and Canada. Although the product line is largely harmonized between the brands, the dual branding approach has been utilized to protect legacy business with key customers and avoid channel conflict.

In the hardware and home improvement product category, on October 1, 2014, Spectrum Brands acquired privately owned Tell Manufacturing, Inc. ("Tell"), a leading U.S. manufacturer and distributor of commercial doors, locks and hardware. Tell will provide the Hardware and Home Improvement segment with an established commercial security sales position through the SmartKey and Kevo residential lock technologies. Tell also adds doors and hollow metal door manufacturing capabilities, a strategically important adjacent category. Furthermore, Spectrum Brands provides kitchen, bath and shower faucets as well as other plumbing products through its Pfister brand. Pfister seeks to bring showroom styles to the mass market at affordable prices and offers a lifetime warranty on all of its products. Pfister seeks to differentiate itself from competition through its breadth of styles and finishes designed to meet consumer, plumber and builder needs.

Consumer Batteries

Spectrum Brands markets and sells a full line of alkaline batteries to both retail and industrial customers. Spectrum Brands' alkaline batteries are marketed and sold primarily under the Rayovac and VARTA brands. Spectrum Brands also manufactures alkaline batteries for third parties who sell the batteries under their own private labels. Spectrum Brands' zinc carbon batteries are also marketed and sold primarily under the Rayovac and VARTA brands and are designed for low and medium drain battery powered devices. Spectrum Brands also sells Nickel Metal Hydride (NiMH) rechargeable batteries and a variety of battery chargers under the Rayovac and VARTA brands.

Spectrum Brands sells its hearing aid batteries through retail trade channels and directly to professional audiologists under several brand names and private labels, including Beltone, Miracle Ear and Starkey. Spectrum Brands' other specialty battery products include camera batteries, lithium batteries, silver oxide batteries, keyless entry batteries and coin cells for use in watches, cameras, calculators, communications equipment, medical instruments and on the go charges.

Spectrum Brands also offers a broad line of battery-powered, portable lighting products, including flashlights and lanterns for both retail and industrial markets. Spectrum Brands sells its portable lighting products under the Rayovac and VARTA brand names, under other proprietary brand names and pursuant to licensing arrangements with third parties. Recently, Rayovac introduced an outdoor portable charging line including the Rescuer™, the Adventurer™ and the rechargeable Power Pack duo, consisting of the DayTripper™ and Weekender™ Power Packs.

Small Appliances

Spectrum Brands markets and sells a broad range of products in the branded small household appliances category under the George Foreman, Black & Decker, Russell Hobbs, Juiceman and Breadman brands, including grills, bread makers, sandwich makers, kettles, toaster ovens, toasters, blenders, juicers, can openers, coffee grinders, coffeemakers, electric knives, deep fryers, food choppers, food processors, hand mixers, rice cookers and steamers. Spectrum Brands also markets small home product appliances, including hand-held irons, vacuum cleaners, air purifiers, clothes shavers and heaters, primarily under the Black & Decker and Russell Hobbs brands.

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Pet Supplies

In the pet supplies product category, Spectrum Brands markets and sells a variety of leading branded pet supplies for fish, dogs, cats, birds and other small domestic animals. Spectrum Brands has a broad line of consumer and commercial aquatics products, including integrated aquarium kits, stand-alone tanks and stands, filtration systems, heaters, pumps, and other equipment, fish food and water treatment products. Spectrum Brands' largest aquatics brands are Tetra, Marineland, Whisper, Jungle and Instant Ocean. Spectrum Brands also sells a variety of specialty pet products, including dog and cat treats, small animal food and treats, clean up and training aid products, health and grooming aids, bedding products, and consumable accessories including privacy tents, litter carpets, crystal litter cartridges, charcoal filters, corn-based litter and replaceable waste receptacles. Spectrum Brands' largest specialty pet brands include FURminator, 8 in 1, Dingo, Nature's Miracle, Wild Harvest, and Littermaid.

In the pet supplies product category, on December 31, 2014, Spectrum Brands completed the acquisition of Procter & Gamble's European pet food business, consisting of the complementary IAMS and Eukanuba premium brands for dogs and cats which are in an adjacent category to Spectrum Brands' global pet business. The acquired business provides access to the growing European dog and cat food market. On January 16, 2015, Spectrum Brands acquired privately owned Salix Animal Health, LLC, a vertically integrated producer and distributor of premium, natural rawhide dog chews, treats and snacks, offering a comprehensive line of chews made from beef hides, pork, chicken, beef and other various proteins.

Personal Care Products

Spectrum Brands' electric personal care products, marketed and sold under the Remington brand name, include hand-held dryers, curling irons, straightening irons, brush irons, hair setters, facial brushes, skin appliances, electric toothbrushes and hair accessories.

Spectrum Brands markets and sells a broad line of electric shaving and grooming products under the Remington brand name, including men's rotary and foil shavers, beard and mustache trimmers, body, nose and ear trimmers, women's shavers, haircut kits and intense pulsed light hair removal systems.

Home and Garden Products

In the home and garden products category, Spectrum Brands currently sells and markets a variety of leading insect and weed control products, including household insecticides, insect repellents, and lawn insect and weed control solutions. Spectrum Brands offers a broad array of household pest control solutions such as spider and scorpion killers; roach and ant killers; flying insect killers; insect foggers; wasp and hornet killers; bedbug, flea and tick control products; and roach and ant baits. Spectrum Brands also offers powerful rodent traps and rodenticides with discreet designs that are easy to refill and reuse.

This business segment also manufactures and markets a complete line of insect repellent products that provide protection from various outdoor nuisance pests, especially mosquitoes. These products include both personal repellents available in a variety of formulas (such as aerosols, lotions, pump sprays and wipes) to match consumers' dynamic needs, as well as area repellents (such as yard sprays, citronella candles and patio lanterns) that let consumers enjoy the outdoors without bothersome pests. In addition to providing pest solutions, Spectrum Brands' line of outdoor insect and weed control solutions allows consumers to conquer bugs and weeds, and tackle their biggest lawn and landscaping projects themselves

Auto Care Products

On May 21, 2015, Spectrum Brands completed the acquisition of AAG, a consumer products company consisting primarily of Armor All and STP products, two of the most recognizable brands in the automotive aftermarket appearance products and performance chemicals categories, respectively, and the A/C Pro Brand of do-it-yourself automotive air conditioner recharge products.

Armor All is a leading automotive aftermarket appearance product brand in the United States with a comprehensive line of products. Spectrum Brands believes that Armor All has distinguished itself a leader in the automotive aftermarket appearance products, category based upon its household name, high quality product formulations, convenient application methods and tradition of innovation. Armor All's current product line of protectants, wipes, tire and wheel care products, glass cleaners, leather care products, air fresheners and washes is designed to clean, shine, refresh and protect interior and exterior automobile surfaces.

The STP brand has been characterized by a commitment to technology, performance and motor sports partnerships. Spectrum Brands believes the STP brands' fuel and oil additives, functional fluids and automotive appearance products benefit from a rich heritage in the car enthusiast and racing scenes. Spectrum Brands believes that the strong brand equity of STP also provides for attractive licensing opportunities that augment its presence in its core performance categories.

As a result of this acquisition, Spectrum Brands has entered into a new segment, Global Auto Care, and incorporated the acquired products and brands into its diversified portfolio. The results of AAG's operations are included within Spectrum Brands' consolidated performance as of the acquisition date of May 21, 2015 for the year ended September 30, 2015.

Sales and Distribution

Spectrum Brands sells its products through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, construction companies and OEMs. Spectrum Brands' sales generally are made through the use of individual purchase orders, consistent with industry practice. Retail sales of the consumer products that Spectrum Brands markets have been increasingly consolidated into a small number of regional and national mass merchandisers. This trend towards consolidation is occurring on a worldwide basis. As a result of this consolidation, a significant percentage of Spectrum Brands' sales are attributable to a very limited group of retailer customers, including Wal-Mart, The Home Depot, Lowe's, Carrefour, Target, PetSmart, Canadian Tire, PetCo and Gigante. Spectrum Brands' sales to its largest customer represented approximately 15% of its consolidated net sales for Fiscal 2015. No other customer accounted for more than 10% of Spectrum Brands' consolidated net sales in Fiscal 2015. Segment information as it relates to revenues, profits and total assets as well as information concerning Spectrum Brands' revenues and long-lived assets by geographic location is set forth in.

Global Batteries & Appliances

Spectrum Brands manages its Global Batteries & Appliances sales force by geographic region and product group. Spectrum Brands' sales team is divided into four major geographic territories: North America, Latin America, Europe and Asia-Pacific. Within each major geographic territory, Spectrum Brands has additional subdivisions designed to meet its customers' needs.

Spectrum Brands manages its sales force in North America by distribution channel. Spectrum Brands maintains separate sales groups to service (i) its retail sales and distribution channel, (ii) its hearing aid professionals channel and (iii) its industrial distributors and OEM sales and distribution channel. In addition, Spectrum Brands utilizes a network of independent brokers to service participants in selected distribution channels. Spectrum Brands manages its sales force in Latin America by distribution channel and geographic territory. Spectrum Brands sells primarily to large retailers, wholesalers, distributors, food and drug chains and retail outlets. In countries where Spectrum Brands does not maintain a sales force, Spectrum Brands sells to distributors who market its products through all channels in the market.

The sales force serving Spectrum Brands' customers in Europe and Asia-Pacific is supplemented by an international network of distributors to promote the sale of its products. Spectrum Brands' sales operations throughout Europe and Asia/Pacific are organized by geographic territory and the following sales channels: (i) food/retail, which includes mass merchandisers, discounters and drug and food stores; (ii) specialty trade, which includes clubs, consumer electronics stores, department stores, photography stores and wholesalers/distributors; and (iii) industrial, government, hearing aid professionals and OEMs.

Global Pet Supplies

Spectrum Brands' Global Pet Supplies sales force is aligned by customer, geographic region and product group. Spectrum Brands sells pet supply products to mass merchandisers, grocery and drug chains, pet superstores, independent pet stores and other retailers.

Home and Garden

The Home and Garden business sales force is geographically aligned with Spectrum Brands' key customers. Spectrum Brands sells primarily to home improvement centers, mass merchandisers, dollar stores, hardware stores, home and garden distributors, and food and drug retailers primarily in the U.S.

Hardware & Home Improvement

The sales force of the Hardware & Home Improvement business is aligned by customer and geographic region. Spectrum Brands sells primarily to large retailers, non-retail distributors, home improvement centers, hardware stores, home builders and other retailers.

Global Auto Care

The Global Auto Care business sales force is geographically aligned with key customers. Spectrum Brands sells primarily to big box auto, auto specialty retail, mass retailers, food and drug retailers, and convenience retailers. Spectrum Brands markets its products in the United States through a number of channels and uses a number of sales strategies. Sales personnel call directly on major accounts and have support teams for supply and marketing. Spectrum Brands' small regional and convenience store customers are serviced by brokers and distributors. International distribution varies by region and is often executed on a country-by-country basis. A majority of international sales are completed using distributors.

Manufacturing, Raw Materials and Suppliers

The principal raw materials used in manufacturing Spectrum Brands' products are zinc, electrolytic manganese dioxide, brass and steel that are sourced either on a global or regional basis. The prices of these raw materials are susceptible to price fluctuations due to supply and demand trends, energy costs, transportation costs, government regulations and tariffs, changes in currency exchange rates, price controls, general economic conditions and other unforeseen circumstances. Spectrum Brands has regularly engaged in forward purchase and hedging derivative transactions in an attempt to effectively manage the raw material costs Spectrum Brands expects to incur over the next 12 to 24 months.

Substantially all of Spectrum Brands' rechargeable batteries and chargers, portable lighting products, hair care and other personal care products and its electric shaving and grooming products and small appliances are manufactured by third party suppliers that are primarily located in the Asia-Pacific region. Spectrum Brands maintains ownership of most of the tooling and molds used by its suppliers.

Spectrum Brands continually evaluates its manufacturing facilities' capacity and related utilization. As a result of such analyses, Spectrum Brands has closed a number of manufacturing facilities during the past five years. In general, Spectrum Brands believes its existing facilities are adequate for its present and foreseeable needs.

Research and Development

Spectrum Brands' research and development strategy is focused on new product development and performance enhancements of its existing products. Spectrum Brands plans to continue to use its strong brand names, established customer relationships and significant research and development efforts to introduce innovative products that offer enhanced value to consumers through new designs and improved functionality.

During Fiscal 2015, 2014 and 2013, Spectrum Brands invested $51.3 million, $47.9 million and $43.3 million, respectively, in product research and development.

Patents and Trademarks

Spectrum Brands also uses and maintain a number of trademarks in its business, including, among others, RAYOVAC, VARTA, REMINGTON, GEORGE FOREMAN, RUSSELL HOBBS, FARBERWARE, TOASTMASTER, BREADMAN, JUICEMAN, BLACK & DECKER, TETRA, 8IN1, DINGO, NATURE'S MIRACLE, WILD HARVEST, MARINELAND, FURMINATOR, LITTERMAID, BIRDOLA, HEALTHY HIDE, DIGEST-EEZE, IAMS, EUKANUBA, SPECTRACIDE, CUTTER, HOT SHOT, REAL KILL, ULTRA KILL, BLACK FLAG, LIQUID FENCE, RID-A-BUG, TAT, GARDEN SAFE, REPEL, KWIKSET, WEISER, BALDWIN, NATIONAL HARDWARE, FANAL, PFISTER, TELL, ARMOR ALL, STP, and A/C PRO. Spectrum Brands seeks trademark protection in the U.S. and in foreign countries.

Spectrum Brands owns or licenses from third parties a significant number of patents and patent applications throughout the world relating to products Spectrum Brands sells and manufacturing equipment Spectrum Brands uses. Spectrum Brands holds a license that expires in March 2022 for certain alkaline battery designs, technology and manufacturing equipment from Matsushita Electrical Industrial Co., Ltd. ("Matsushita"), to whom Spectrum Brands pays a royalty.

As a result of the October 2002 sale by VARTA AG of substantially all of its consumer battery business to Spectrum Brands and VARTA AG's subsequent sale of its automotive battery business to Johnson Controls, Inc. ("Johnson Controls"), Spectrum Brands acquired rights to the VARTA trademark in the consumer battery category and Johnson Controls acquired rights to the trademark in the automotive battery category. VARTA AG continues to have rights to use the trademark with travel guides and industrial batteries and VARTA Microbattery GmbH has the right to use the trademark with micro batteries. Spectrum Brands is party to a Trademark and Domain Names Protection and Delimitation Agreement that governs ownership and usage rights and obligations of the parties relative to the VARTA trademark.

As a result of the common origins of the Remington Products, L.L.C. ("Remington Products") business Spectrum Brands acquired in September 2003 and the Remington Arms Company, Inc. ("Remington Arms"), the REMINGTON trademark is owned by Spectrum Brands and by Remington Arms each with respect to its principal products as well as associated products. Accordingly, Spectrum Brands owns the rights to use the REMINGTON trademark for electric shavers, shaver accessories, grooming products and personal care products, while Remington Arms owns the rights to use the trademark for firearms, sporting goods and products for industrial use, including industrial hand tools. In addition, the terms of a 1986 agreement between Remington Products and Remington Arms provides for the shared rights to use the REMINGTON trademark on products which are not considered “principal products of interest” for either company. Spectrum Brands retains the REMINGTON trademark for nearly all products which Spectrum Brands believes can benefit from the use of the brand name in its distribution channels.

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Spectrum Brands licenses the Black and Decker brand in North America, Latin America (excluding Brazil) and the Caribbean for four core categories of household appliances: beverage products, food preparation products, garment care products and cooking products. Spectrum Brands has licensed the Black and Decker brand since 1998 for use in marketing various household small appliances. In July 2014, Spectrum Brands and The Black and Decker Corporation ("BDC") extended the trademark license agreement through December 2018. Under the agreement as extended, Spectrum Brands agreed to pay BDC royalties based on a percentage of sales, with minimum annual royalty payments of $15.0 million through calendar year 2018. The agreement also requires Spectrum Brands to comply with maximum annual return rates for products. If BDC does not agree to renew the license agreement, Spectrum Brands has 18 months to transition out of the brand name. No minimum royalty payments will be due during such transition period. BDC has agreed not to compete in the four core product categories for a period of five years after the end of the transition period following termination of the license agreement. Upon request, BDC may elect to extend the license to use the Black & Decker brand to certain additional product categories. BDC has approved several extensions of the license to additional categories and geographies.

Through the acquisition of the residential Hardware and Home Improvement business (the "HHI Business"), Spectrum Brands owns the patented SmartKey technology, which enables customers to easily rekey their locks without hiring a locksmith.

Spectrum Brands owns a 56% interest in Shaser Biosciences, Inc. Through this ownership Spectrum Brands has patented technology that is used in its i-Light Reveal product line.

Competition

In Spectrum Brands' retail markets, it competes for limited shelf space and consumer acceptance. Factors influencing product sales include brand name recognition, perceived quality, price, performance, product packaging, design innovation, and consumer confidence and preferences as well as creative marketing, promotion and distribution strategies.

Global Batteries & Appliances

The consumer battery product category consists of non-rechargeable alkaline or zinc carbon batteries in cell sizes of AA, AAA, C, D and 9-volt, specialty batteries, which include rechargeable batteries, hearing aid batteries, photo batteries and watch/calculator batteries; and portable lighting products. The battery product category is highly competitive. Most consumer batteries manufactured throughout the world are sold by one of four global companies: Spectrum Brands (manufacturer/seller of Rayovac and VARTA brands); Energizer Holdings, Inc. ("Energizer") (manufacturer/seller of the Energizer brand); The Procter & Gamble Company ("Procter & Gamble") (manufacturer/seller of the Duracell brand); and Matsushita (manufacturer/seller of the Panasonic brand). Spectrum Brands also faces competition from the private label brands of major retailers, particularly in Europe. The offering of private-label batteries by retailers may create pricing pressure in the consumer battery market. Typically, private-label brands are not supported by advertising or promotion, and retailers sell these private label offerings at prices below competing name-brands. The main barriers to entry for new competitors are investment in technology research, cost of building manufacturing capacity and the expense of building retail distribution channels and consumer brands.

In the U.S. alkaline battery category, the Rayovac brand is positioned as a value brand, which is typically defined as a product that offers comparable performance at a lower price. In Europe, the VARTA brand is competitively priced with other premium brands. In Latin America, where zinc carbon batteries outsell alkaline batteries, the Rayovac brand is competitively priced.

Products in Spectrum Brands' small appliances category consist of small electrical appliances primarily in the kitchen and home product categories. Primary competitive brands in the small appliance category include Hamilton Beach, Proctor Silex, Sunbeam, Mr. Coffee, Oster, General Electric, Rowenta, DeLonghi, Kitchen Aid, Cuisinart, Krups, Braun, Rival, Europro, Kenwood, Philips, Morphy Richards, Breville and Tefal. The key competitors in this market in the U.S. and Canada include Jarden Corporation, DeLonghi America, Euro-Pro Operating LLC, Metro Thebe, Inc., d/b/a HWI Breville, NACCO Industries, Inc. (Hamilton Beach) and SEB S.A. In addition, Spectrum Brands competes with retailers who use their own private label brands for household appliances (for example, Wal-Mart).

Spectrum Brands also operates in the personal care product category, consisting of electric shavers and accessories, electric grooming products and hair care appliances and accessories. Electric shavers include men's and women's shavers (both rotary and foil design) and electric shaver accessories consisting of shaver replacement parts (primarily foils and cutters), pre-shave products and cleaning agents. Electric shavers are marketed primarily under its Remington brand. Electric grooming products include beard and mustache trimmers, nose and ear trimmers, body groomers and haircut kits and related accessories. Hair care appliances include hair dryers, straightening irons, styling irons and hair-setters. Europe and North America account for the majority of Spectrum Brands' electric personal care product category sales.

Spectrum Brands' primary competitors in the personal products category are Norelco, a division of Koninklijke Philips Electronics NV ("Philips"), which sells and markets rotary shavers, and Braun, a division of Procter & Gamble, which sells and markets foil shavers. Through its Remington brand, Spectrum Brands sells both foil and rotary shavers. Other major competitors in the electric personal care product category are Conair Corporation, Wahl Clipper Corporation and Health of Troy Limited ("Helen of Troy").

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Global Pet Supplies

Spectrum Brands' global pet supplies segment comprises aquatics equipment (aquariums, filters, pumps, etc.), aquatics consumables (fish food, water treatments and conditioners, etc.) and specialty pet products for dogs, cats, birds and other small domestic animals. The pet supplies product category is highly fragmented with over 500 manufacturers in the U.S. alone, with no competitor holding a market share greater than twenty percent and consists primarily of small companies with limited product lines. Spectrum Brands believes that its brand positioning, including the leading global aquatics brand in Tetra, its diverse array of innovative and attractive products and its strong retail relationships and global infrastructure will allow Spectrum Brands to remain competitive in this fast growing industry.

Spectrum Brands' largest competitors in this category are Mars Corporation ("Mars"), The Hartz Mountain Corporation ("Hartz") and Central Garden & Pet Company ("Central Garden & Pet"). Both Hartz and Central Garden & Pet sell a comprehensive line of pet supplies and compete with a majority of the products Spectrum Brands offers. Mars sells primarily aquatics products.

Home and Garden

Products in Spectrum Brands' home and garden segment are sold primarily in the U.S. market under the major brand names Spectracide, Hot Shot, Cutter, Repel, Black Flag, Garden Safe and Liquid Fence. Spectrum Brands manufactures and markets outdoor and indoor insect control products, rodenticides, herbicides, insect repellents and lawn maintenance products. In addition, Spectrum Brands produces and markets several private-label brands for many major retailers. Spectrum Brands' marketing position is primarily that of a value brand, enhanced and supported by innovative products of outstanding quality and appealing packaging that is designed to drive sales at the point of purchase. Spectrum Brands' commitment to quality and value has earned the trust of consumers and the confidence of retailers, who count on Spectrum Brands to deliver the fast-selling products, merchandising solutions and quality service they require. Products Spectrum Brands sells in the home and garden category face competition from The Scotts Miracle-Gro Company ("Scotts Company"), which markets lawn and garden products under the Scotts, Ortho, Roundup, Miracle-Gro, and Tomcat brand names; Central Garden & Pet, which markets garden products under the AMDRO and Sevin brand names; and Bayer A.G., which markets home and garden products under the Bayer Advanced brand name.

Products Spectrum Brands sells in the household insect control product category face competition from S.C. Johnson & Son, Inc. ("S.C. Johnson"), which markets insecticide and repellent products under the Raid and OFF! brands; Scotts Company, which markets household insect control products under the Ortho brand; and Henkel KGaA, which markets insect control products under the Combat brand.

Hardware & Home Improvement

Competition in the Hardware & Home Improvement industry varies based on location as well as product segment. The main source of competition for residential locksets includes other third party manufacturers such as Schlage, a division of Allegion, and private label import brands such as Defiant and Gatehouse. Major competitors for hardware include The Hillman Group, Hampton Hardware, Crown Bolt and private label competitors. In plumbing, Pfister's major U.S. competitors are Masco, Fortune Brands, Kohler, and American Standard, as well as Glacier Bay and AquaSource, and the private label brands of The Home Depot and Lowe's.

Global Auto Care

During Fiscal 2015, Spectrum Brands entered the Global Auto Care segment with its acquisition of AAG, which consists of Armor All and STP products. Products Spectrum Brands sells in the auto care product category compete with other widely advertised brands and with private label brands, including Valvoline, Prestone, Turtle Wax, Black Magic and private label brands. Spectrum Brands also encounters competition from similar and alternative products, many of which are produced and marketed by major multinational or national companies, including Mothers, Meguiars, Lucas, and Sea Foam.

Some of Spectrum Brands' major competitors have greater resources and greater overall market share than Spectrum Brands does. They have committed significant resources to protect their market shares or to capture market share from Spectrum Brands and may continue to do so in the future. In some key product lines, Spectrum Brands' competitors may have lower production costs and higher profit margins than Spectrum Brands does, which may enable them to compete more aggressively in advertising and in offering retail discounts and other promotional incentives to retailers, distributors, wholesalers and, ultimately, consumers.

Seasonality

On a consolidated basis Spectrum Brands’ financial results are approximately equally weighted among its quarters, however, sales of certain product categories tend to be seasonal. Sales in the consumer battery and electric personal care product categories, particularly in North America, tend to be concentrated in the December holiday season (Spectrum Brands’ first fiscal quarter). Small appliances peak from July through December primarily due to the increased demand by customers in the late summer for “back-to-school” sales and in the fall for the holiday season. Sales for hardware and home improvement products increase during the spring and summer construction period (Spectrum Brands’ third and fourth fiscal quarters). Sales for pet supplies products remain fairly constant throughout the year. Sales for home and garden control products typically peak during the first six months

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of the calendar year (Spectrum Brands' second and third fiscal quarters). Demand for auto care products is generally at its highest during the period from March to June (Spectrum Brands' second and third fiscal quarters) based upon historical customer seasonal purchasing patterns and timing of promotional activities. The seasonality of Spectrum Brands' sales as a percentage of annual sales during Fiscal 2015, 2014 and 2013 were as follows:

Percentage of Annual Net Consumer Products Sales	Fiscal					
Fiscal Quarter Ended	2015		2014		2013	
First Quarter	23	%	25	%	21	%
Second Quarter	23	%	23	%	24	%
Third Quarter	26	%	25	%	27	%
Fourth Quarter	28	%	27	%	28	%

Governmental Regulations and Environmental Matters

Due to the nature of Spectrum Brands' operations, its facilities are subject to a broad range of federal, state, local and foreign legal and regulatory provisions relating to the environment, including those regulating the discharge of materials into the environment, the handling and disposal of solid and hazardous substances and wastes and the remediation of contamination associated with the releases of hazardous substances at Spectrum Brands' facilities. Spectrum Brands believes that compliance with the federal, state, local and foreign laws and regulations to which it is subject will not have a material effect upon Spectrum Brands' capital expenditures, financial condition, earnings or competitive position.

From time to time, Spectrum Brands has been required to address the effect of historic activities on the environmental condition of its properties. Spectrum Brands has not conducted invasive testing at all facilities to identify all potential environmental liability risks. Given the age of its facilities and the nature of its operations, it is possible that material liabilities may arise in the future in connection with Spectrum Brands' current or former facilities. If previously unknown contamination of property underlying or in the vicinity of its manufacturing facilities is discovered, Spectrum Brands could incur material unforeseen expenses, which could have a material adverse effect on its financial condition, capital expenditures, earnings and competitive position. Although Spectrum Brands is currently engaged in investigative or remedial projects at some of its facilities, Spectrum Brands does not expect that such projects, taking into account established accruals, will cause Spectrum Brands to incur expenditures that are material to its business, financial condition or results of operations; however, it is possible that its future liability could be material.

Spectrum Brands has been, and in the future may be, subject to proceedings related to its disposal of industrial and hazardous material at off-site disposal locations or similar disposals made by other parties for which Spectrum Brands is held responsible as a result of its relationships with such other parties. In the U.S., these proceedings are under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA") or similar state laws that hold persons who "arranged for" the disposal or treatment of such substances strictly liable for costs incurred in responding to the release or threatened release of hazardous substances from such sites, regardless of fault or the lawfulness of the original disposal. Liability under CERCLA is typically joint and several, meaning that a liable party may be responsible for all costs incurred in investigating and remediating contamination at a site. As a practical matter, liability at CERCLA sites is shared by all of the viable responsible parties. Spectrum Brands occasionally is identified by federal or state governmental agencies as being a potentially responsible party for response actions contemplated at an off-site facility. At the existing sites where Spectrum Brands has been notified of its status as a potentially responsible party, it is either premature to determine whether its potential liability, if any, will be material or Spectrum Brands does not believe that its liability, if any, will be material. Spectrum Brands may be named as a potentially responsible party under CERCLA or similar state laws for other sites not currently known to it, and the costs and liabilities associated with these sites may be material.

It is difficult to quantify with certainty the potential financial impact of actions regarding expenditures for environmental matters, particularly remediation, and future capital expenditures for environmental control equipment. Nevertheless, based upon the information currently available, Spectrum Brands believes that its ultimate liability arising from such environmental matters, taking into account established accruals of $4.4 million for estimated liabilities at September 30, 2015 should not be material to its business or financial condition.

Electronic and electrical products that Spectrum Brands sells in Europe, particularly products sold under the Remington brand name, VARTA battery chargers, certain portable lighting and all of Spectrum Brands' batteries, are subject to regulation in European Union ("EU") markets under three key EU directives. The first directive is the Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment ("RoHS") which took effect in EU member states beginning July 1, 2006. RoHS prohibits companies from selling products which contain certain specified hazardous materials in EU member states. Spectrum Brands believes that compliance with RoHS will not have a material effect on its capital expenditures, financial condition, earnings or competitive position. The second directive is entitled the Waste of Electrical and Electronic Equipment ("WEEE"). WEEE makes producers or importers of particular classes of electrical goods financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. WEEE assigns levels of responsibility to companies doing business in EU markets based on their relative market share. WEEE calls on each EU member state to enact enabling legislation to implement

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the directive. To comply with WEEE requirements, Spectrum Brands has partnered with other companies to create a comprehensive collection, treatment, disposal and recycling program. As EU member states pass enabling legislation Spectrum Brands currently expects its compliance system to be sufficient to meet such requirements. Spectrum Brands current estimated costs associated with compliance with WEEE are not significant based on its current market share. However, Spectrum Brands continues to evaluate the impact of the WEEE legislation as EU member states implement guidance and as its market share changes and, as a result, actual costs to Spectrum Brands could differ from its current estimates and may be material to its business, financial condition or results of operations. The third directive is the Directive on Batteries and Accumulators and Waste Batteries, which was adopted in September 2006 and went into effect in September 2008 (the “Battery Directive”). The Battery Directive bans heavy metals in batteries by establishing maximum quantities of those heavy metals in batteries and mandates waste management of batteries, including collection, recycling and disposal systems. The Battery Directive places the costs of such waste management systems on producers and importers of batteries. The Battery Directive calls on each EU member state to enact enabling legislation to implement the directive. Spectrum Brands currently believes that compliance with the Battery Directive will not have a material effect on its capital expenditures, financial condition, earnings or competitive position. However, until such time as the EU member states adopt enabling legislation, a full evaluation of these costs cannot be completed. Spectrum Brands will continue to evaluate the impact of the Battery Directive and its enabling legislation as EU member states implement guidance.

Certain of Spectrum Brands’ products and facilities in each of its business segments are regulated by the United States Environmental Protection Agency (the “EPA”) and the United States Food and Drug Administration (the “FDA”) or other federal consumer protection and product safety agencies and are subject to the regulations such agencies enforce, as well as by similar state, foreign and multinational agencies and regulations. For example, in the U.S., all products containing pesticides must be registered with the EPA and, in many cases, similar state and foreign agencies before they can be manufactured or sold. Spectrum Brands’ inability to obtain or the cancellation of any registration could have an adverse effect on its business, financial condition and results of operations. The severity of the effect would depend on which products were involved, whether another product could be substituted and whether its competitors were similarly affected. Spectrum Brands attempts to anticipate regulatory developments and maintain registrations of, and access to, substitute chemicals and other ingredients. Spectrum Brands may not always be able to avoid or minimize these risks.

The Food Quality Protection Act (“FQPA”) established a standard for food-use pesticides, which is that a reasonable certainty of no harm will result from the cumulative effect of pesticide exposures. Under the FQPA, the EPA is evaluating the cumulative effects from dietary and non-dietary exposures to pesticides. The pesticides in certain of Spectrum Brands’ products continue to be evaluated by the EPA as part of this program. It is possible that the EPA or a third party active ingredient registrant may decide that a pesticide Spectrum Brands uses in its products will be limited or made unavailable to Spectrum Brands. Spectrum Brands cannot predict the outcome or the severity of the effect of the EPA’s continuing evaluations of active ingredients used in its products.

Certain of Spectrum Brands’ products and packaging materials are subject to regulations administered by the FDA. Among other things, the FDA enforces statutory prohibitions against misbranded and adulterated products, establishes ingredients and manufacturing procedures for certain products, establishes standards of identity for certain products, determines the safety of products and establishes labeling standards and requirements. In addition, various states regulate these products by enforcing federal and state standards of identity for selected products, grading products, inspecting production facilities and imposing their own labeling requirements.

Employees

Spectrum Brands had approximately 15,500 full-time employees worldwide as of September 30, 2015. Approximately 16% of its total labor force is covered by collective bargaining agreements. There are 4 collective bargaining agreements that will expire during Spectrum Brands’ Fiscal 2016, which cover approximately 60% of the labor force under collective bargaining agreements, or approximately 10% of its total labor force. Spectrum Brands believes that its overall relationship with its employees is good.

Available Information

For information regarding Spectrum Brands, see the remaining section of this report. Interested parties may also read Spectrum Brands’ Annual Report on Form 10-K for Fiscal 2015, a copy of which may be obtained on the SEC’s website.

Spectrum Brands’ Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Exchange Act, are made available free of charge on or through Spectrum Brands’ website at www.spectrumbrands.com as soon as reasonably practicable after such reports are filed with, or furnished to, the Commission.

The information on Spectrum Brands’ website is not, and shall not be deemed to be, part of this report or incorporated into any other filings HRG or Spectrum Brands makes with the Commission and Spectrum Brands’ reports are not and shall not be deemed to be part of this report. You may read and copy any materials Spectrum Brands files with the Commission at the Commission’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public

Reference Room by calling the Commission at 1-800-SEC-0330. The Commission also maintains a website that contains Spectrum Brands' reports, proxy statements and other information at www.sec.gov.

FGL

The FGL Business

FGL, a Delaware corporation and subsidiary of HRG, is a provider of various types of fixed annuities and life insurance products in the U.S. Based in Des Moines, Iowa, and Baltimore, Maryland, FGL operates its annuity and life insurance operations in the U.S. through its subsidiaries FGH, Fidelity & Guaranty Life Insurance Company ("FGL Insurance") and Fidelity & Guaranty Life Insurance Company of New York ("FGL NY Insurance"). For over 50 years, FGL has been helping middle-income Americans prepare for retirement and unexpected loss of life. FGL's focus on the middle-income market gives it access to significant, underserved market niches and drives FGL's product development. As of September 30, 2015, FGL had approximately 700,000 policyholders counting on the safety and protection features of FGL's fixed annuity and life insurance products, and FGL constantly seeks to innovate its products to meet their evolving needs.

FGL offers various types of fixed annuities and life insurance products. Fixed annuities represent a retirement and savings tool which FGL's customers rely on for principal protection and predictable income streams. In addition, FGL's life insurance products provide its customers with a complementary product that allows them to build on their savings and assign payment of a death benefit to a designated beneficiary upon the policyholder's death. Currently, FGL's most popular products are fixed indexed annuities ("FIAs") that tie contractual returns to specific market indices, such as the Standard & Poor's Ratings Services ("S&P") 500 Index. The benefit of FIAs to FGL's customers is to provide a portion of the gains of an underlying market index while providing principal protection. FGL believes this mix of "some upside but limited downside" fills the need for middle-income Americans who must save for retirement but who want to limit the risk of decline in their savings. In addition to FIAs, FGL also sells indexed universal life policies ("IULs") and other fixed annuities.

In Fiscal 2015, FIAs generated approximately 86% of FGL's total sales and the remaining 14% of sales was primarily generated from fixed annuity sales during the year. FGL invests the annuity premiums in fixed income securities and options and hedge FGL's risk, predominantly using call options on the S&P 500 Index, for the pass through of the market index returns to its policyholders. The majority of FGL's products contain provisions that permit FGL to annually adjust the formula by which index credits are provided in response to changing market conditions. In addition, FGL's annuity contracts generally either cannot be surrendered or include surrender charges that discourage early redemptions.

The FGL Merger

On November 8, 2015, FGL, Anbang, AB Infinity and AB Merger Sub entered into the FGL Merger Agreement. Pursuant to the FGL Merger Agreement and subject to the terms and conditions set forth therein, Merger Sub will merge with and into FGL, with FGL continuing as the surviving entity, which will become a direct, wholly-owned subsidiary of AB Infinity and an indirect, wholly-owned subsidiary of Anbang.

Pursuant to the FGL Merger Agreement, at the effective time of the FGL Merger, each issued and outstanding share of FGL common stock will be cancelled and converted automatically into the right to receive $26.80 in cash, without interest (the "FGL Merger Consideration"), other than any shares of common stock owned by FGL as treasury stock or otherwise or owned by Anbang, AB Infinity or Merger Sub (which will be cancelled and no payment will be made with respect thereto), shares of common stock granted pursuant to FGL's Equity Plan (as defined in the FGL Merger Agreement) and those shares of common stock with respect to which appraisal rights under Delaware law are properly exercised and not withdrawn. The FGL Merger Agreement permits FGL to pay out a regular quarterly cash dividend on its Common Stock prior to the closing of the transaction in an amount not in excess of $0.065 per share, per quarter (the per share amount of FGL's most recently declared quarterly dividend).

At the effective time of the FGL Merger, each (i) option to purchase shares of common stock (a "FGL Stock Option"), (ii) restricted share of common stock and (iii) performance-based restricted stock unit relating to shares of common stock (an "FGL RSU"), in each case whether vested or unvested, will become fully vested and automatically converted into the right to receive a cash payment equal to the product of (1) the number of shares subject to the award (for FGL RSUs, determined at the target performance level) multiplied by (2) the FGL Merger Consideration (less the exercise price per share in the case of FGL Stock Options). In addition, at the effective time of the FGL Merger, each stock option ("FGH Stock Option") and restricted stock unit relating to shares of FGH whether vested or unvested, will become fully vested and automatically converted into the right to receive a cash payment equal to the product of (A) the number of shares of FGH stock subject to the award multiplied by (B) $152.44 (less the exercise price in the case of such FGH Stock Options), and each dividend equivalent held in respect of a share of FGH stock ("FGL DER"), whether vested or unvested, will become fully vested and automatically converted into the right to receive a cash payment equal to the amount accrued with respect to such FGL DER.

Following execution of the FGL Merger Agreement, FS Holdco II Ltd. ("FS Holdco"), which is a wholly-owned subsidiary of the Company holding a majority of the issued and outstanding shares of FGL's common stock, executed and delivered to FGL a written consent (the "Consent"), approving and adopting the FGL Merger Agreement and the transactions contemplated thereby, including the FGL Merger. As a result of the execution and delivery of the Consent, the holders of at least a majority of the outstanding shares of FGL's common stock have adopted and approved the FGL Merger Agreement.

Pursuant to the FGL Merger Agreement, the consummation of the FGL Merger is subject to satisfaction or waiver of certain closing conditions, including, among others: (i) the information statement to be filed by FGL with the SEC in connection with the FGL Merger shall have been cleared by the SEC and shall have been sent to stockholders of FGL (in accordance with Regulation 14C under the Exchange Act at least twenty (20) days prior to the closing); (ii) the absence of any law or order enacted, issued or enforced that is in effect and that makes the consummation of the FGL Merger illegal, prevents, prohibits, restrains or enjoins the consummation of the FGL Merger; and (iii) obtaining the requisite approvals from the IID, New York State Department of Financial Services ("NYDFS"), Vermont Department of Financial Regulation, China Insurance Regulatory Commission and the Committee on Foreign Investment in the United States. The FGL Merger Agreement does not contain any financing condition or contingency.

The FGL Merger Agreement includes customary representations, warranties and covenants of FGL, Anbang, AB Infinity and Merger Sub. Among other things, FGL and its subsidiaries are required to conduct their respective businesses and operations in the ordinary course of business until the FGL Merger is consummated. Pursuant to the FGL Merger Agreement, Anbang has agreed to cause the full and complete performance by AB Infinity of all of its obligations pursuant to the terms of the FGL Merger Agreement and in the event AB Infinity does not fulfill all of its obligations pursuant to the terms of the FGL Merger Agreement, Anbang will unconditionally and irrevocably perform such unperformed obligations of AB Infinity pursuant to the terms of the FGL Merger Agreement.

The FGL Merger Agreement contains certain provisions giving each of AB Infinity and FGL rights to terminate the FGL Merger Agreement under certain circumstances. Upon termination of the FGL Merger Agreement, under specified circumstances, FGL may be required to pay a termination fee to AB Infinity of $51.45 million.

The foregoing description of the FGL Merger Agreement and the transactions contemplated thereby does not purport to be complete. Interested parties should review the FGL Merger Agreement any other information or statement filed or furnished by FGL with the SEC.

Strategy

FGL seeks to grow its business by pursuing a set of strategies aimed at delivering sustainable and profitable growth for shareholders including:

- Increase Sales in FGL's Existing Market. FGL believes that increasing demand for retirement and principal protection products combined with an evolving competitive landscape present FGL with significant opportunities to grow sales with the market. FGL will continue to pursue opportunities to increase shelf space in the IMO market.
- Diversify FGL's Distribution Channels. FGL will leverage its strong capital position and target higher ratings to develop broader relationships with broker-dealers, banks and financial planning professionals, thereby increasing the ways in which FGL reaches its customers and eventually reaching its customers directly. Effective implementation will require phased investment over a number of years in institutional relationships, systems, marketing, wholesaling, and product development.
- Bottom-line, Profit-oriented Objectives. FGL focuses on initiatives that FGL expects will deliver target profits and avoid markets and products when industry pricing makes it difficult to achieve targeted profit margins.

Competition

FGL's ability to compete is dependent upon many factors which include, among other things, its ability to develop competitive and profitable products, its ability to maintain stable relationships with its contracted IMOs, its ability to maintain low unit costs and its maintenance of adequate financial strength ratings from rating agencies. Principal competitive factors for FIAs are initial crediting rates, reputation for renewal crediting action, product features, brand recognition, customer service, cost, distribution capabilities and financial strength ratings of the provider. Competition may affect, among other matters, both business growth and the pricing of FGL's products and services. Principal competitive factors for IULs are based on service and distribution channel relationships, price, brand recognition, financial strength ratings of its insurance subsidiaries and financial stability.

Products

FGL's experience designing and developing annuities and life insurance products is expected to allow FGL to continue to introduce innovative products and solutions designed to meet customers' changing needs. FGL works hand-in-hand

with its distributors to devise the most suitable product solutions for the ever-changing market. FGL believes that, on a practical basis, FGL has a unique understanding of the safety, accumulation, protection, and income needs of middle-income Americans.
FGL’s current most popular product line is FIAs. Most FIAs have two phases-accumulation and payout. During accumulation, a policyholder’s money is credited with interest linked to specific market indices, while providing principal protection. High surrender charges apply for early withdrawal, typically for seven to fourteen years after purchase. During the payout or distribution

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phase, the policyholder will receive periodic pay from the annuity. The policyholders are guaranteed minimum values based on state regulation.
Annuity Products
Through FGL's insurance subsidiaries, FGL issues a broad portfolio of deferred annuities (fixed indexed and fixed rate annuities) and immediate annuities. A deferred annuity is a type of contract that accumulates value on a tax deferred basis and typically begins making specified periodic or lump sum payments a certain number of years after the contract has been issued. An immediate annuity is a type of contract that begins making specified payments within one annuity period (e.g., one month or one year) and typically pays principal and earnings in equal payments over some period of time.
Deferred Annuities
FIAs
FGL's FIAs allow contract owners the possibility of earning interest based on the performance of a specified market index, predominantly the S&P 500 Index, without risk to principal. The contracts include a provision for a minimum guaranteed surrender value calculated in accordance with applicable law. A market index tracks the performance of a specific group of stocks representing a particular segment of the market, or in some cases an entire market. For example, the S&P 500 Composite Stock Price Index is an index of 500 stocks intended to be representative of a broad segment of the market. All FIA products allow policyholders to allocate funds once a year among several different crediting strategies, including one or more index-based strategies and a traditional fixed rate strategy.
The value to the contractholder of an FIA contract is equal to the sum of deposits paid, premium bonuses (described below), index credits, up to a cap and a participation rate based on the annual appreciation (based in certain situations on annual point-to-point, monthly point-to-point or monthly average calculations) in a recognized market index less any fees for riders. Caps generally range from 3.0% to 6.0% when measured annually and 1.0% to 3.0% when measured monthly and participation rates generally range from 30.0% to 100.0% of the performance of the applicable market index. The cap can be reset annually. Certain riders allow for a contractholder to increase their cap for a set fee. As this fee is fixed, the contractholder may lose principal if the index credits received do not exceed the amount of such fee.
Approximately 88.5% of the FIA sales for Fiscal 2015 involved "premium bonuses" or vesting bonuses. For premium bonuses, FGL increased the initial annuity deposit by a specified premium bonus of 2.0% to 3.0% and a vesting bonus of 1.0% to 10.0%. The vesting bonuses are earned over time, which increases the account value when the bonus is settled. FGL made compensating adjustments in the commission paid to the agent or the surrender charges on the policy to offset the premium bonus.
As of September 30, 2015, 38.9% of FGL's FIA contracts were issued with a guaranteed minimum withdrawal benefit ("GMWB") rider. With this rider, a contract owner can elect to receive guaranteed payments for life from the FIA contract without requiring the owner to annuitize the FIA contract value. The amount of the living income benefit available is determined by the growth in the policy's benefit base value as defined in the FIA contract rider. Typically this accumulates for 10 years based on a guaranteed rate of 3.5% to 10.0%. Guaranteed withdrawal payments may be stopped and restarted at the election of the contract owner. Some of the FIA contract riders that FGL offers include an additional death benefit or an increase in benefit amounts under chronic health conditions. Rider fees range from 0.1% to 1.1%.
As of September 30, 2015, the distribution of the FIA account values by cap rate and by strategy was as follows (dollars in millions):

Cap rate	0% to 2%	2% to 3%	3% to 4%	4% to 5%	5% to 22%	Total
1 year gain trigger	$0.7	$180.8	$156.7	$78.6	$20.4	$437.2
1-2 year monthly average	—	216.0	322.6	497.3	342.4	1,378.3
1-3 year monthly point-to-point	2,905.3	806.4	277.9	12.6	—	4,002.2
1-3 year annual point-to-point	—	605.4	688.9	1,256.7	511.4	3,062.4
3 year step forward	—	—	0.3	18.4	134.5	153.2
Total	$2,906.0	$1,808.6	$1,446.4	$1,863.6	$1,008.7	$9,033.3

Fixed Rate Annuities

Fixed rate annuities include annual reset and multi-year rate guaranteed policies. Fixed rate annual reset annuities issued by FGL have an annual interest rate (the "crediting rate") that is guaranteed for the first policy year. After the first policy year, FGL has the discretionary ability to change the crediting rate once annually to any rate at or above a guaranteed minimum rate. Fixed rate multi-year guaranteed annuities ("MYGAs") are similar to fixed rate annual reset annuities except that the initial crediting rate is guaranteed for a specified number of years before it may be changed at its discretion. For Fiscal 2015, FGL sold $26.2 million in fixed rate annual reset annuities and $258.8 million of fixed rate MYGAs. As of September 30, 2015, crediting rates on outstanding (i) single-year guaranteed annuities generally ranged from 1.5% to 6.0% and (ii) MYGAs ranged from 1.0% to 5.7%. The average crediting rate on all outstanding fixed rate annuities at September 30, 2015, was 3.4%.

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As of September 30, 2015, the distribution of the fixed rate annuity account values by crediting rate was as follows (dollars in millions):

Crediting Rate	1% to 2%	2% to 3%	3% to 4%	4% to 5%	5% to 6%
Account Value	$43.8	$209.9	$2,364.0	$471.2	$74.6

As of September 30, 2015, the MYGAs expiring guaranty account values, net of reinsurance by year were as follows:

Duration by Year:	Multi-Year Rate Guaranteed Annuities Account Value
2016	$134.4
2017	676.9
2018	284.8
2019	760.3
2020	214.5
Thereafter	76.6
Total	$2,147.5

Withdrawal Options for Deferred Annuities

After the first year following the issuance of a deferred annuity policy, holders of deferred annuities are typically permitted penalty-free withdrawals up to 10% of the prior year's value, subject to certain limitations. Withdrawals in excess of allowable penalty-free amounts are assessed a surrender charge if such withdrawals are made during the penalty period of the deferred annuity policy. The penalty period typically ranges from seven to fourteen years for FIAs and three to ten years for fixed rate annuities. This surrender charge initially ranges from 0.0% to 15.0% of the contract value for FIAs and 0.0% to 14.0% of the contract value for fixed rate annuities and generally decreases by approximately one to two percentage points per year during the penalty period. The average surrender charge is 8.7% for FGL's FIAs and 5.5% for FGL's fixed rate annuities as of September 30, 2015.

The following table summarizes FGL's deferred annuity account values and surrender charge protection as of September 30, 2015 (dollars in millions):

SURRENDER CHARGE EXPIRATION BY YEAR:	Fixed and Fixed-Index Annuities Account Value	Percent of Total	Weighted Average Surrender Charge
Out of surrender charge	$1,980.0	14.0 %	— %
2015	268.4	1.9 %	2.9 %
2016 - 2017	2,116.0	14.9 %	4.6 %
2018- 2019	2,518.0	17.8 %	7.4 %
2020 - 2021	1,429.4	10.1 %	9.5 %
Thereafter	5,842.3	41.3 %	11.2 %
	$14,154.1	100.0 %	

The policyholder may elect to take the proceeds of the surrender either in a single payment or in a series of payments over the life of the policyholder or for a fixed number of years (or a combination of these payment options). In addition to the foregoing withdrawal rights, policyholders may also elect to have additional withdrawal rights by purchasing a GMWB. These riders provide a GMWB, regardless of index performance, for the life of the contract. However, the benefit may vary based on performance.

Immediate Annuities

FGL also sells single premium immediate annuities (or "SPIAs"), which provide a series of periodic payments for a fixed period of time or for the life of the policyholder, according to the policyholder's choice at the time of issue. The amounts, frequency and length of time of the payments are fixed at the outset of the annuity contract. SPIAs are often purchased by persons at or near retirement age who desire a steady stream of payments over a future period of years.

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The following table presents the deposits (also known as "sales") on annuity policies issued by FGL for the fiscal years ended September 30, 2015, 2014, and 2013 as well as reserves required by accounting principles generally accepted in the United States of America ("U.S. GAAP Reserves") as of September 30, 2015, 2014 and 2013 (dollars in millions):

	September 30, 2015		September 30, 2014		September 30, 2013	
Products	Deposits on Annuity Policies	GAAP Reserves	Deposits on Annuity Policies	GAAP Reserves	Deposits on Annuity Policies	GAAP Reserves
Fixed Indexed Annuities	$2,184.7	$12,093.5	$1,451.4	$10,766.6	$983.1	$9,985.9
Fixed Rate Annuities	210.5	3,248.7	707.9	3,192.3	38.0	2,708.2
Single Premium Immediate Annuities	15.5	2,956.4	9.7	3,201.6	7.3	3,491.6
Total	$2,410.7	$18,298.6	$2,169.0	$17,160.5	$1,028.4	$16,185.7

Life Insurance

FGL currently offers IUL insurance policies and has previously sold term and whole life insurance products. Holders of universal life insurance policies earn returns on their policies which are credited to the policyholder's cash value account. The insurer periodically deducts its expenses and the cost of life insurance protection from the cash value account. The balance of the cash value account is credited interest at a fixed rate or returns based on the performance of a market index, or both, at the option of the policyholder, using a method similar to that described above for FIAs. Almost all of the life insurance policies in force, except for the return of premium benefits on term life insurance products, are subject to an arrangement with Wilton Reassurance Company ("Wilton Re").

As of September 30, 2015, the distribution of the IUL account values by cap rate and by strategy was as follows (dollars in millions):

Cap rate	2.5% - 5%	5% - 7.5%	7.5% - 10%	10% - 12.5%	12.5% +	Total
1 year annual point-to-point, Gold Index	$—	$—	$—	$—	$18.0	$18.0
1 year monthly point-to-point, S&P Index	30.2	—	—	—	—	30.2
1 year annual point-to-point with 100% par rate, S&P Index	15.3	5.8	15.7	96.9	37.8	171.5
1 year annual point-to-point with 140% par rate, S&P Index	3.4	2.5	13.5	—	—	19.4
Total	$48.9	$8.3	$29.2	$96.9	$55.8	$239.1

Distribution

The sale of FGL's products typically occurs as part of a four-party, three stage sales process between FGL Insurance, an IMO, the agent and the customer. FGL Insurance designs, manufactures, issues, and services the product. The IMO, with whom FGL Insurance contracts, recruits large numbers of agents to its firm and provides training in return for exclusive sales agreements, in most cases, with FGL Insurance. The IMOs will usually sign contracts with multiple insurance carriers to provide their agents with a broad and competitive product portfolio. The IMO will discuss product options over the phone with agents about to meet with clients. The IMO staff will also provide assistance to the agent during the selling and application process. The agent may get customer leads from the IMOs. The agent will conduct a fact find and present suitable product choices to the customers. FGL monitors each distribution partner for pricing metrics, mortality, and persistency, as well as market conduct and suitability.

Within this business model, FGL offers its products through a network of approximately 200 IMOs, representing approximately 30,000 agents, and identifies its most important IMOs, those who are able to meet certain production targets and qualify for extra-contractual production bonuses, as "Power Partners." FGL currently has 31 Power Partners, comprised of 18 annuity IMOs and 13 life insurance IMOs. During Fiscal 2015, these Power Partners accounted for

approximately 91.0% of its annual sales volume. FGL believes that its relationships with these IMOs are strong. The average tenure of the top ten Power Partners is approximately 14 years.
FGL’s Power Partners play an important role in the development of its products. Over the last ten years, the majority of FGL’s best-selling products have been developed with its Power Partners. FGL intends to continue to have the Power Partners play an important role in the development of its products in the future, which FGL believes it provides it with integral feedback throughout the development process and assists FGL with competing for “shelf space” of new design launches.
The top five states for the distribution of FGL Insurance products in 2015 were California, Texas, Florida, New Jersey and Michigan, which together accounted for nearly 46.1% of FGL Insurance’s premiums.

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Investments

FGL embraces a long-term conservative investment philosophy, investing nearly all the insurance premiums FGL receives in a wide range of fixed income interest-bearing securities.

FGL’s internal asset management team manages the bulk of the investment portfolio, and with respect to certain asset classes, FGL utilizes experienced third party companies, including FGL’s affiliates. As of September 30, 2015, 66.5% of FGL’s $17.7 billion fixed maturity investment portfolio was managed by its employees, with the 33.5% balance managed by third parties. FGL’s investment strategy is designed to (i) achieve strong absolute returns; (ii) provide consistent yield and investment income; and (iii) preserve capital.

In addition to active management of assets, FGL’s Investments department is also responsible for defining portfolio strategy, managing its asset/liability profile and hedging its product guarantees.

The types of assets in which FGL may invest are influenced by various state laws, which prescribe qualified investment assets applicable to insurance companies. Additionally, FGL defines risk tolerance across a wide range of factors, including credit risk, liquidity risk, concentration (issuer and sector) risk, and caps on specific asset classes, which in turn establish conservative risk thresholds.

FGL’s investment portfolio consists of high quality fixed maturities, including publicly issued and privately issued corporate bonds, municipal and other government bonds, asset-backed securities ("ABS"), residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS") and commercial mortgage loans (“CMLs”). FGL also maintains holdings in floating rate, and less rate-sensitive investments, including senior tranches of collateralized loan obligations (“CLOs”), non-agency RMBS, and various types of ABS. It is FGL’s expectation that its investment portfolio will broaden in scope and diversity to include other asset classes held by life and annuity insurance writers. FGL also has a small amount of equity holdings through its funding arrangement with the Federal Home Loan Bank of Atlanta.

Portfolio Activity

Over the last year, FGL continued to work with its internal asset management team and third party asset managers to broaden the portfolio’s exposure to include United States dollar ("USD") denominated emerging market bonds, highly rated preferred stocks and hybrids and structured securities including ABS.

Derivatives

FGL’s FIA contracts permit the holder to elect to receive a return based on an interest rate or the performance of a market index, most typically based on the S&P 500 Index. FGL purchases derivatives consisting predominantly of call options and, to a lesser degree, futures contracts on the equity indices underlying the applicable policy. These derivatives are used to fund the index credits due to policyholders under the FIA contracts based upon policyholders' contract elections. The majority of all such call options are one-year options purchased to match the funding requirements underlying the FIA contracts. On the respective anniversary dates of the applicable FIA contracts, the market index used to compute the annual index credit under the applicable FIA contract is reset. At such time, FGL purchases new one-, two-, three-, or five-year call options to fund the next index credit. FGL attempts to manage the cost of these purchases through the terms of its FIA contracts, which permit FGL to change caps or participation rates, subject to certain guaranteed minimums that must be maintained. The change in the fair value of the call options and futures contracts is generally designed to offset the equity market related change in the fair value of the FIA contract’s related reserve liability. The call options and futures contracts are marked to fair value with the change in fair value included as a component of Net investment gains (losses). The change in fair value of the call options and futures contracts includes the gains and losses recognized at the expiration of the instruments’ terms or upon early termination and the changes in fair value of open positions.

Outsourcing

FGL outsources the following functions to third-party service providers:

- new business administration;
- service of existing policies;
- underwriting administration of life insurance applications;
- call centers;
- information technology development and maintenance;

- investment accounting and custody; and
- hosting of financial systems.

FGL closely manages its outsourcing partners and integrates their services into its operations. FGL believes that outsourcing such functions allows it to focus capital and FGL employees on its core business operations and perform differentiating functions, such as investment, actuarial, product development and risk management functions. In addition, FGL believes an outsourcing model provides predictable pricing, service levels and volume capabilities and allows it to benefit from technological developments that enhance its customer self-service and sales processes.

FGL outsources its new business and existing policy administration for annuity and life products to Transaction Applications Group, Inc. Under this arrangement, Transaction Applications Group, Inc. manages all of FGL's call center and processing requirements. FGL's current agreement expires in June 2016.

FGL has partnered with Hooper Holmes, Inc. ("Hooper Holmes") to implement FGL's life insurance underwriting policies. Under the terms of the arrangement, Hooper Holmes has assigned FGL a team of underwriters with Fellow Life Management Institute designations. Underwriting guidelines for each product are established by FGL's Chief Underwriting Officer in collaboration with FGL's actuarial department. FGL's Chief Underwriting Officer and actuarial department work closely with the applicable reinsurance company to establish or change guidelines. Adherence to underwriting guidelines is managed at a case level through daily underwriting audits conducted by FGL's Chief Underwriting Officer as well as the Hooper Holmes lead underwriter. Every three years, underwriting audits are conducted by FGL's reinsurers. FGL's current agreement with Hooper Holmes expires in December 2016.

FGL believes that it has a good relationship with its principal outsource service providers.

Ratings

FGL's access to funding and its related cost of borrowing, the attractiveness of certain of its products to customers and requirements for derivatives collateral posting are affected by FGL's credit ratings and insurance financial strength ratings, which are periodically reviewed by the rating agencies. Financial strength ratings and credit ratings are important factors affecting public confidence in an insurer and its competitive position in marketing products.

As of September 30, 2015, Moody's Investors Service ("Moody's), Fitch Ratings, Inc. ("Fitch"), Standard & Poor's Ratings Service ("S&P") and A.M. Best Company ("A.M. Best") issued financial strength credit and/or ratings and outlook statements regarding FGH and its wholly owned insurance subsidiaries, FGL Insurance and FGL NY Insurance.

Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. Financial strength ratings represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its financial obligations under an insurance policy and generally involve quantitative and qualitative evaluations by rating agencies of a company's financial condition and operating performance. Generally, rating agencies base their financial strength ratings upon information furnished to them by the insurer and upon their own investigations, studies and assumptions. Financial strength ratings are based upon factors of concern to policyholders, agents and intermediaries and are not directed toward the protection of investors. Credit and financial strength ratings are not recommendations to buy, sell or hold securities and they may be revised or revoked at any time at the sole discretion of the rating organization.

Following the announcement of the proposed FGL Merger, the rating organizations have undertaken a review of FGL's debt ratings and FGL's insurance company subsidiaries' financial strength ratings. The rating organizations may take various actions, positive or negative, and their actions may not be known until the FGL Merger closes.

In addition to the financial strength ratings, rating agencies use an "outlook statement" to indicate a medium or long term trend which, if continued, may lead to a rating change. A positive outlook indicates a rating may be raised and a negative outlook indicates a rating may be lowered. A stable outlook is assigned when ratings are not likely to be changed. A developing outlook is assigned when a rating may be raised, lowered, or affirmed. Outlooks should not be confused with expected stability of the issuer's financial or economic performance. A rating may have a "stable" outlook to indicate that the rating is not expected to change, but a "stable" outlook does not preclude a rating agency from changing a rating at any time without notice.

A.M. Best, Fitch, Moody's and S&P review their ratings of insurance companies from time to time. There can be no assurance that any particular rating will continue for any given period of time or that it will not be changed or withdrawn entirely if, in their judgment, circumstances so warrant. While the degree to which ratings adjustments will affect sales and persistency is unknown, FGL believes if its ratings were to be negatively adjusted for any reason, FGL could experience a material decline in the sales of its products and the persistency of its existing business. See Part I, Item 1A. "Risk Factors-Risks Related to FGL's and Front Street's Businesses."

Potential Impact of a Ratings Downgrade

Under some of its International Swaps and Derivatives Association, Inc. (“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 the ISDA agreement, at which time the counterparty would unwind existing positions for fair market value. No ISDA agreements have been terminated, although the counterparties have reserved the right to terminate ISDA agreements at any time. As of September 30, 2015, the amount at risk for the ISDA agreement which could be terminated based upon its current ratings was $80.7 million, which equals the fair value to FGL of the open over-the-counter call option positions. The fair

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value of the call options can never decrease below zero. See Part II, Item 7A. "Quantitative and Qualitative Disclosures about Market Risk-Credit Risk and Counterparty Risk-FGL."

In certain transactions, FGL and its counterparty have entered into a collateral support agreement requiring either party to post collateral when the net exposures exceed predetermined thresholds. These thresholds vary by counterparty and credit rating. As of September 30, 2015 and 2014, $7.0 million and $188.0 million, respectively, of collateral was posted by FGL's counterparties. 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 $73.7 million and $108.3 million at September 30, 2015 and 2014, respectively.

If FGL's insurance subsidiaries held net short positions against a counterparty, and such subsidiaries' financial strength ratings were below the levels required in ISDA agreement with the counterparty, the counterparty would demand immediate further collateralization which could negatively impact overall liquidity. Based on the market value of FGL's derivatives as of September 30, 2015 and 2014, FGL holds no net short positions against a counterparty; therefore, there is currently no potential exposure for FGL to post collateral.

Risk Management

Risk management is a critical part of FGL's business. FGL seeks to assess risk to its business through a formalized process involving (i) identifying short-term and long-term strategic and operational objectives, (ii) development of risk appetite statements that establish what the company is willing to accept in terms of risks to achieving its goals and objectives, (iii) identifying the levers that control the risk appetite of the company, (iv) establishing the overall limits of risk acceptable for a given risk driver, (v) establishing operational risk limits that are aligned with the tolerances, (vi) assigning risk limit quantification and mitigation responsibilities to individual team members within functional groups, (vii) analyzing the potential qualitative and quantitative impact of individual risks, (viii) mitigating risks by appropriate actions and (ix) identifying, documenting and communicating key business risks in a timely fashion.

The responsibility for monitoring, evaluating and responding to risk is assigned first to FGL's management and employees, second to those occupying specialist functions, such as legal compliance and risk teams, and third to those occupying supervisory functions, such as internal audit and the board of directors.

Reinsurance

FGL both cedes reinsurance and assumes reinsurance from other insurance companies. FGL uses reinsurance both to diversify risks and manage loss exposures. For instance, FGL has sought reinsurance coverage in order to limit its exposure to mortality losses and enhance FGL's capital position. The portion of risks exceeding FGL's retention limit is reinsured with other insurers. The use of reinsurance permits FGL to write policies in excess of amounts FGL would typically seek to retain, and also to write a larger volume of new business.

In instances where FGL is the ceding company, FGL pays a premium to a reinsurer in exchange for the reinsurer assuming a portion of FGL's liabilities under the policies it issued. Use of reinsurance does not discharge FGL's liability as the ceding company because FGL remains directly liable to its policyholders and is required to pay the full amount of FGL's policy obligations in the event that FGL's reinsurers fail to satisfy their obligations. FGL collects reimbursement from its reinsurers when FGL pays claims on policies that are reinsured. In instances where FGL assumes reinsurance from another insurance company, FGL accepts, in exchange for a reinsurance premium, a portion of the liabilities of the other insurance company under the policies that the ceding company has issued to its policyholders.

FGL monitors the credit risk related to the ability of its reinsurers to honor their obligations under various agreements. To minimize the risk of credit loss on such contracts, FGL generally diversifies its exposures among many reinsurers and limits the amount of exposure to each based on financial strength ratings.

Wilton Re Transaction

On January 26, 2011, FGL entered into an agreement (the "Commitment Agreement") with Wilton Re U.S. Holdings, Inc. ("Wilton"), pursuant to which Wilton agreed to cause Wilton Re, its wholly owned subsidiary, to enter into certain coinsurance arrangements with FGL Insurance following the closing of the FGH Acquisition. Pursuant to the Commitment Agreement, Wilton Re has reinsured a 100% quota share of certain of FGL Insurance's policies that are subject to redundant reserves under Regulation XXX and Guideline AXXX, as well as another block of FGL Insurance's in-force traditional, and IUL insurance policies.

Wilton Re's reinsurance of such FGL Insurance policies has not extinguished FGL Insurance's liability with respect to such business because FGL Insurance remains directly liable to policyholders and is required to pay the full amount of its policy obligations in the event that Wilton Re fails to satisfy its obligations with respect to the reinsured business.

The Front Street Reinsurance Transactions

On December 31, 2012, following regulatory approval, FGL Insurance entered into a coinsurance agreement (the "Cayman Reinsurance Agreement") with Front Street Cayman. Pursuant to the Cayman Reinsurance Agreement, Front Street Cayman reinsured a 10% quota share percentage of certain FGL Insurance annuity liabilities of approximately $1.5 billion. As of September 30, 2015, ceded reserves are $1.3 billion. Under the terms of the Cayman Reinsurance Agreement, Front Street Cayman paid an initial ceding allowance of $15.0 million which was determined to be fair and reasonable according to an independent third-party actuarial firm. The Cayman Reinsurance Agreement is on a funds withheld basis, meaning that funds are withheld by FGL Insurance from the coinsurance premium owed to Front Street Cayman as collateral for Front Street Cayman's payment obligations. Accordingly, the collateral assets remain under the ultimate ownership of FGL Insurance. The effects of this transaction were eliminated in FGL's consolidated financial statements for the period January 1, 2013 through August 9, 2013.

Effective September 17, 2014, FGL Insurance entered into a second reinsurance treaty with Front Street Cayman whereby FGL Insurance ceded 30% of any new business of its MYGA block of business on a funds withheld basis. This treaty was subsequently terminated as to new business effective April 30, 2015 but will remain in effect for policies ceded to Front Street Cayman with an effective date between September 17, 2014 and April 30, 2015. Accordingly, policies issued with an effective date of May 1, 2015 and later will not be ceded to Front Street Cayman.

Reserve Facilities

Life insurance companies operating in the United States must calculate required reserves for life and annuity policies based on statutory principles. These methodologies are governed by "Regulation XXX" (applicable to term life insurance policies), "Guideline AXXX" (applicable to universal life insurance policies with secondary guarantees) and the Commissioners Annuity Reserve Valuation Method, known as "CARVM" (applicable to annuities). Under Regulation XXX, Guideline AXXX and CARVM, insurers are required to establish statutory reserves for such policies that exceed economic reserves. The industry has reduced or eliminated redundancies thereby increasing capital using a variety of techniques including reserve facilities.

The CARVM Facility

On October 5, 2012, FGL Insurance entered into a yearly renewable term indemnity reinsurance agreement with Raven Reinsurance Company ("Raven Re"), a wholly owned subsidiary of FGL Insurance (the "Raven Reinsurance Agreement"), pursuant to which FGL Insurance ceded a 100% quota share of its CARVM liability for annuity benefits where surrender charges are waived. To collateralize its obligations under the Raven Reinsurance Agreement, Raven Re entered into a reimbursement agreement with Nomura Bank International plc ("NBI"), an affiliate of Nomura Securities International, Inc., and FGL (the "Reimbursement Agreement") whereby a subsidiary of NBI issued trust notes and NBI issued a $295.0 million letter of credit that, in each case, were deposited into a reinsurance trust as collateral for Raven Re's obligations under the Raven Reinsurance Agreement (the "NBI Facility"). Pursuant to the NBI Facility, FGL Insurance takes full credit on its statutory financial statements for the CARVM reserve ceded to Raven Re. The letter of credit facility automatically reduces each calendar quarter by $6.3 million. As of September 30, 2015, there was $226.3 million available under the letter of credit facility. The NBI Facility will terminate on September 30, 2017, although the facility may terminate earlier, in accordance with the terms of the Reimbursement Agreement. Under the terms of the Reimbursement Agreement, in the event the letter of credit is drawn upon, Raven Re is required to repay the amounts utilized, and FGH is obligated to repay the amounts utilized if Raven Re fails to make the required reimbursement. FGH also is required to make capital contributions to Raven Re in the event that Raven Re's statutory capital and surplus falls below certain defined levels. As of December 31, 2014, Raven Re's statutory capital and surplus was $21.9 million in excess of the minimum level required under the Reimbursement Agreement. See Part II, Item 7A. "Quantitative and Qualitative Disclosures About Market Risk-Credit Risk and Counterparty Risk-FGL."

Regulation

Overview

FGL Insurance, FGL NY Insurance and Raven Re are subject to comprehensive regulation and supervision in their domiciles, Iowa, New York and Vermont, respectively, and in each state in which they do business. FGL Insurance does business throughout the United States, except for New York. FGL NY Insurance only does business in New York. Raven Re is a special purpose captive reinsurance company that only provides reinsurance to FGL Insurance under the Raven Reinsurance Agreement ("CARVM Treaty"). Following its re-domestication to Iowa, FGL Insurance's principal insurance regulatory authority is the IID. State insurance departments throughout the United States also

monitor FGL Insurance’s insurance operations as a licensed insurer. The NYDFS regulates the operations of FGL NY Insurance, which is domiciled and licensed in New York. The purpose of these regulations is primarily to protect policyholders and beneficiaries and not general creditors and shareholders of those insurers. Many of the laws and regulations to which FGL Insurance and FGL NY Insurance are subject are regularly re-examined and existing or future laws and regulations may become more restrictive or otherwise adversely affect their operations.
Generally, insurance products underwritten by and rates used by FGL Insurance and FGL NY Insurance must be approved by the insurance regulators in each state in which they are sold. Those products are also substantially affected by federal and state tax laws. For example, changes in tax law could reduce or eliminate the tax-deferred accumulation of earnings on the deposits paid by the holders of annuities and life insurance products, which could make such products less attractive to potential purchasers. A shift away from life insurance and annuity products could reduce FGL Insurance’s and FGL NY Insurance’s income from the

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sale of such products, as well as the assets upon which FGL Insurance and FGL NY Insurance earn investment income. In addition, insurance products may also be subject to the Employee Retirement Income Security Act of 1974 ("ERISA").

State insurance authorities have broad administrative powers over FGL Insurance and FGL NY Insurance with respect to all aspects of the insurance business including:

- licensing to transact business;
- licensing agents;
- prescribing which assets and liabilities are to be considered in determining statutory surplus;
- regulating premium rates for certain insurance products;
- approving policy forms and certain related materials;
- determining whether a reasonable basis exists as to the suitability of the annuity purchase recommendations producers make;
- regulating unfair trade and claims practices;
- establishing reserve requirements and solvency standards;
- regulating the amount of dividends that may be paid in any year;
- regulating the availability of reinsurance or other substitute financing solutions, the terms thereof and the ability of an insurer to take credit on its financial statements for insurance ceded to reinsurers or other substitute financing solutions;
- fixing maximum interest rates on life insurance policy loans and minimum accumulation or surrender values; and
- regulating the type, amounts, and valuations of investments permitted, transactions with affiliates, and other matters.

Financial Regulation

State insurance laws and regulations require FGL Insurance, FGL NY Insurance and Raven Re to file reports, including financial statements, with state insurance departments in each state in which they do business, and their operations and accounts are subject to examination by those departments at any time. FGL Insurance, FGL NY Insurance and Raven Re prepare statutory financial statements in accordance with accounting practices and procedures prescribed or permitted by these departments.

The National Association of Insurance Commissioners ("NAIC") has approved a series of statutory accounting principles and various model regulations that have been adopted, in some cases with certain modifications, by all state insurance departments. These statutory principles are subject to ongoing change and modification. For instance, the NAIC adopted, effective with the annual reporting period ending December 31, 2010, revisions to the Annual Financial Reporting Model Regulation (or the Model Audit Rule) related to auditor independence, corporate governance and internal control over financial reporting. These revisions require that insurance companies, such as FGL Insurance and FGL NY Insurance, file reports with state insurance departments regarding their assessments of internal control over financial reporting. Moreover, compliance with any particular regulator’s interpretation of a legal or accounting issue may not result in compliance with another regulator’s interpretation of the same issue, particularly when compliance is judged in hindsight. Any particular regulator’s interpretation of a legal or accounting issue may change over time to FGL Insurance’s or FGL NY Insurance’s detriment, or changes to the overall legal or market environment, even absent any change of interpretation by a particular regulator, may cause FGL Insurance and FGL NY Insurance to change their views regarding the actions they need to take from a legal risk management perspective, which could necessitate changes to FGL Insurance’s or FGL NY Insurance’s practices that may, in some cases, limit their ability to grow and improve profitability.

State insurance departments conduct periodic examinations of the books and records, financial reporting, policy and rate filings, market conduct and business practices of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. State insurance departments also have the authority to conduct examinations of non-domiciliary insurers that are licensed in their states. The Maryland Insurance Administration (“MIA”) completed a routine financial examination of FGL Insurance for the three-year period ended December 31, 2012, and found no material deficiencies and proposed no adjustments to the financial statements as filed. The NYDFS completed a routine financial examination of FGL NY for the three-year period ended December

31, 2009, and found no material deficiencies and proposed no adjustments to the financial statements as filed. The NYDFS is in the process of completing a routine financial examination of FGL NY Insurance for the three-year periods ended December 31, 2012.

Additionally, the Vermont Department of Financial Regulation has completed a routine financial examination of Raven Re for the period from April 7, 2011 (commencement of business) through December 31, 2012. It found no material deficiencies and proposed no adjustments to the financial statements as filed.

Going forward, FGL Insurance will be subject to financial and market conduct examinations by the IID, the primary regulatory authority for Iowa domestic life insurance companies.

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Dividend and Other Distribution Payment Limitations

The Iowa insurance law and the New York insurance law regulate the amount of dividends that may be paid in any year by FGL Insurance and FGL NY Insurance, respectively. Each year, FGL Insurance and FGL NY Insurance may pay a certain limited amount of ordinary dividends or other distributions without being required to obtain the prior consent of the Iowa Insurance Commissioner ("Iowa Commissioner") or the NYDFS, respectively. However, to pay any dividends or distributions (including the payment of any dividends or distributions for which prior consent is not required), FGL Insurance and FGL NY Insurance must provide advance written notice to the Iowa Commissioner or the NYDFS, respectively.

Pursuant to Iowa insurance law, ordinary dividends are payments, together with all other such payments within the preceding twelve months, that do not exceed the greater of (i) 10% of FGL Insurance's statutory surplus as regards policyholders as of December 31 of the preceding year; or (ii) the net gain from operations of FGL Insurance (excluding realized capital gains) for the 12-month period ending December 31 of the preceding year.

Dividends in excess of FGL Insurance's ordinary dividend capacity are referred to as extraordinary and require prior approval of the Iowa Commissioner. In deciding whether to approve a request to pay an extraordinary dividend, Iowa insurance law requires the Iowa Commissioner to consider the effect of the dividend payment on FGL Insurance's surplus and financial condition generally and whether the payment of the dividend will cause FGL Insurance to fail to meet its required risk-based capital ("RBC") ratio. Dividends may only be paid out of statutory earned surplus.

Any payment of dividends by FGL Insurance is subject to the regulatory restrictions described above and the approval of such payment by the board of directors of FGL Insurance, which must consider various factors, including general economic and business conditions, tax considerations, FGL Insurance's strategic plans, financial results and condition, FGL Insurance's expansion plans, any contractual, legal or regulatory restrictions on the payment of dividends and its effect on RBC and such other factors the board of directors of FGL Insurance considers relevant. For example, payments of dividends could reduce FGL Insurance's RBC and financial condition and lead to a reduction in FGL Insurance's financial strength rating. See Part I, Item 1A. "Risk Factors-Risks Relating to FGL's and Front Street's Businesses-A financial strength ratings downgrade, potential downgrade, or any other negative action by a rating agency could make its products less attractive and increase its cost of capital, and thereby adversely affect its financial condition and results of operations".

FGL NY Insurance has historically not paid dividends. Except that, in 2012, FGL NY Insurance paid a $4.4 million dividend to FGL Insurance after a determination that, as a result of capital contributions by FGL Insurance, FGL NY Insurance was overcapitalized.

Surplus and Capital

FGL Insurance and FGL NY Insurance are subject to the supervision of the regulators in states where they are licensed to transact business. Regulators have discretionary authority in connection with the continuing licensing of these entities to limit or prohibit sales to policyholders if, in their judgment, the regulators determine that such entities have not maintained the minimum surplus or capital or that the further transaction of business will be hazardous to policyholders.

Risk-Based Capital

In order to enhance the regulation of insurers' solvency, the NAIC adopted a model law to implement RBC requirements for life, health and property and casualty insurance companies. All states have adopted the NAIC's model law or a substantially similar law. RBC is used to evaluate the adequacy of capital and surplus maintained by an insurance company in relation to risks associated with: (i) asset risk, (ii) insurance risk, (iii) interest rate risk, and (iv) business risk. In general, RBC is calculated by applying factors to various asset, premium and reserve items, taking into account the risk characteristics of the insurer. Within a given risk category, these factors are higher for those items with greater underlying risk and lower for items with lower underlying risk. The RBC formula is used as an early warning regulatory tool to identify possible inadequately capitalized insurers for purposes of initiating regulatory action, and not as a means to rank insurers generally. Insurers that have less statutory capital than the RBC calculation requires are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy. As of the most recent annual statutory financial statements filed with insurance regulators, the RBC ratios for FGL Insurance and FGL NY Insurance each exceeded the minimum RBC requirements.

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Nevertheless, it may be desirable to maintain an RBC ratio in excess of the minimum requirements in order to maintain or improve FGL's financial strength ratings. FGL's historical RBC ratios are presented in the table below. See Part I, Item 1A. "Risk Factors-Risks Relating to FGL's and Front Street's Businesses- A financial strength ratings downgrade, potential downgrade, or any other negative action by a rating agency could make its product offerings less attractive and increase FGL's cost of capital, and thereby adversely affect FGL's financial condition and results of operations".

	RBC Ratio	
As of:		
December 31, 2014	388	%
December 31, 2013	423	%
December 31, 2012	406	%
December 31, 2011	371	%

Insurance Regulatory Information System Tests

The NAIC has developed a set of financial relationships or tests known as the Insurance Regulatory Information System ("IRIS") to assist state regulators in monitoring the financial condition of U.S. insurance companies and identifying companies that require special attention or action by insurance regulatory authorities. A ratio falling outside the prescribed "usual range" is not considered a failing result. Rather, unusual values are viewed as part of the regulatory early monitoring system. In many cases, it is not unusual for financially sound companies to have one or more ratios that fall outside the usual range. Insurance companies generally submit data annually to the NAIC, which in turn analyzes the data using prescribed financial data ratios, each with defined "usual ranges". Generally, regulators will begin to investigate or monitor an insurance company if its ratios fall outside the usual ranges for four or more of the ratios. IRIS consists of a statistical phase and an analytical phase whereby financial examiners review insurers' annual statements and financial ratios. The statistical phase consists of 12 key financial ratios based on year-end data that are generated from the NAIC database annually; each ratio has a "usual range" of results. As of December 31, 2014, FGL Insurance, FGL NY Insurance and Raven Re each had two ratios outside the usual range. FGL Insurance's and Raven Re's IRIS ratio for change in premiums was outside the usual range. FGL Insurance and FGL NY Insurance's IRIS ratio for change in reserving was outside the usual range. In addition, FGL NY Insurance and Raven Re's adequacy of investment income also fell outside of the usual range.

In all instances in prior years, regulators have been satisfied upon follow-up that no regulatory action was required. FGL Insurance, FGL NY Insurance and Raven Re are not currently subject to regulatory restrictions based on these ratios.

Insurance Reserves

State insurance laws require insurers to analyze the adequacy of reserves. The respective appointed actuaries for FGL Insurance, FGL NY Insurance and Raven Re must each submit an opinion on an annual basis that their respective reserves, when considered in light of the respective assets FGL Insurance, FGL NY Insurance and Raven Re hold with respect to those reserves, make adequate provision for the contractual obligations and related expenses of FGL Insurance, FGL NY Insurance and Raven Re. FGL Insurance, FGL NY Insurance and Raven Re have filed all of the required opinions with the insurance departments in the states in which they do business.

Credit for Reinsurance Regulation

States regulate the extent to which insurers are permitted to take credit on their financial statements for the financial obligations that the insurers cede to reinsurers. Where an insurer cedes obligations to a reinsurer which is neither licensed nor accredited by the state insurance department, the ceding insurer is not permitted to take such financial statement credit unless the unlicensed or unaccredited reinsurer secures the liabilities it will owe under the reinsurance contract. Under the laws regulating credit for reinsurance issued by such unlicensed or unaccredited reinsurers, the permissible means of securing such liabilities are (i) the establishment of a trust account by the reinsurer to hold certain qualifying assets in a qualified U.S. financial institution, such as a member of the Federal Reserve, with the ceding insurer as the exclusive beneficiary of such trust account with the unconditional right to demand, without notice to the reinsurer, that the trustee pay over to it the assets in the trust account equal to the liabilities owed by the reinsurer; (ii) the posting of an unconditional and irrevocable letter of credit by a qualified U.S. financial institution in favor of the ceding company allowing the ceding company to draw upon the letter of credit up to the amount of the unpaid liabilities of the reinsurer and (iii) a “funds withheld” arrangement by which the ceding company withholds transfer to the reinsurer of the reserves which support the liabilities to be owed by the reinsurer, with the ceding insurer retaining title to and exclusive control over such reserves. In addition, on January 1, 2014, the NAIC Model Credit for Reinsurance Act became effective in Iowa, which adds the concept of “certified reinsurer”, whereby a ceding insurer may take financial statement credit for reinsurance provided by an unaccredited and unlicensed reinsurer which has been certified by the Iowa Commissioner. The Iowa Commissioner certifies reinsurers based on several factors, including their financial strength ratings, and imposes collateral requirements based on such factors. FGL Insurance and FGL NY Insurance are subject to such credit for reinsurance rules in Iowa and New York, respectively, insofar as they enter into any reinsurance contracts with reinsurers which are neither licensed nor accredited in Iowa and New York, respectively.

Insurance Holding Company Regulation

As the parent company of FGL Insurance and the indirect parent company of FGL NY Insurance, FGL and entities affiliated for purposes of insurance regulation are subject to the insurance holding company laws in Iowa and New York. These laws generally require each insurance company directly or indirectly owned by the holding company to register with the insurance department in the insurance company's state of domicile and to furnish annually financial and other information about the operations of companies within the holding company system. Generally, all transactions between insurers and affiliates within the holding company system are subject to regulation and must be fair and reasonable, and may require prior notice and approval or non-disapproval by its domiciliary insurance regulator.

Most states, including Iowa and New York, have insurance laws that require regulatory approval of a direct or indirect change of control of an insurer or an insurer's holding company. Such laws prevent any person from acquiring control, directly or indirectly, of HRG, FGL, FGH, FGL Insurance or FGL NY Insurance unless that person has filed a statement with specified information with the insurance regulators and has obtained their prior approval. In addition, investors deemed to have a direct or indirect controlling interest are required to make regulatory filings and respond to regulatory inquiries. Under most states' statutes, including those of Iowa and New York, acquiring 10% or more of the voting stock of an insurance company or its parent company is presumptively considered a change of control, although such presumption may be rebutted. Accordingly, any person who acquires 10% or more of HRG's voting securities or that of HRG, FGL, FGH, FGL Insurance or FGL NY Insurance without the prior approval of the insurance regulators of Iowa and New York will be in violation of those states' laws and may be subject to injunctive action requiring the disposition or seizure of those securities by the relevant insurance regulator or prohibiting the voting of those securities and to other actions determined by the relevant insurance regulator.

Insurance Guaranty Association Assessments

Each state has insurance guaranty association laws under which insurers doing business in the state may be assessed by state insurance guaranty associations for certain obligations of insolvent insurance companies to policyholders and claimants. Typically, states assess each member insurer in an amount related to the member insurer's proportionate share of the business written by all member insurers in the state. Although no prediction can be made as to the amount and timing of any future assessments under these laws, FGL Insurance and FGL NY Insurance have established reserves that they believe are adequate for assessments relating to insurance companies that are currently subject to insolvency proceedings.

Market Conduct Regulation

State insurance laws and regulations include numerous provisions governing the marketplace activities of insurers, including provisions governing the form and content of disclosure to consumers, illustrations, advertising, sales and complaint process practices. State regulatory authorities generally enforce these provisions through periodic market conduct examinations. In addition, FGL Insurance and FGL NY Insurance must file, and in many jurisdictions and for some lines of business obtain regulatory approval for, rates and forms relating to the insurance written in the jurisdictions in which they operate. FGL Insurance is currently the subject of ten ongoing market conduct examinations in various states. Market conduct examinations can result in monetary fines or remediation and generally require FGL Insurance to devote significant resources to the management of such examinations. FGL Insurance does not believe that any of the current market conduct examinations it is subject to will result in any fines or remediation orders that will be material to its business.

Regulation of Investments

FGL Insurance and FGL NY Insurance are subject to state laws and regulations that require diversification of their investment portfolios and limit the amount of investments in certain asset categories, such as below investment grade fixed income securities, equity, real estate, other equity investments and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as either non-admitted assets for purposes of measuring surplus or as not qualified as an asset held for reserve purposes and, in some instances, would require divestiture or replacement of such non-qualifying investments. FGL believes that the investment portfolios of FGL Insurance and FGL NY Insurance as of September 30, 2015 complied in all material respects with such regulations.

Privacy Regulation

FGL’s operations are subject to certain federal and state laws and regulations that require financial institutions and other businesses to protect the security and confidentiality of personal information, including health-related and customer information, and to notify customers and other individuals about their policies and practices relating to their collection and disclosure of health-related and customer information and their practices relating to protecting the security and confidentiality of such information. These laws and regulations require notice to affected individuals, law enforcement agencies, regulators and others if there is a breach of the security of certain personal information, including social security numbers, and require holders of certain personal information to protect the security of the data. FGL's operations are also subject to certain federal regulations that require financial institutions and creditors to implement effective programs to detect, prevent, and mitigate identity theft. In addition, FGL's ability to make telemarketing calls and to send unsolicited e-mail or fax messages to consumers and customers and its uses of certain personal information, including consumer report information, are regulated. Federal and state governments and regulatory bodies may be expected to consider additional or more detailed regulation regarding these subjects and the privacy and security of personal information.

FIAs

In recent years, the SEC and state securities regulators have questioned whether FIAs, such as those sold by FGL, should be treated as securities under the federal and state securities laws rather than as insurance products exempted from such laws. Treatment of these products as securities would require additional registration and licensing of these products and the agents selling them, as well as cause FGL to seek additional marketing relationships for these products, any of which may impose significant restrictions on its ability to conduct operations as currently operated. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), annuities that meet specific requirements, including requirements relating to certain state suitability rules, are specifically exempted from being treated as securities by the SEC. FGL expects that the types of FIAs FGL Insurance and FGL NY Insurance sell will meet these requirements and therefore are exempt from being treated as securities by the SEC and state securities regulators. However, there can be no assurance that federal or state securities laws or state insurance laws and regulations will not be amended or interpreted to impose further requirements on FIAs.

The Dodd-Frank Act

The Dodd-Frank Act makes sweeping changes to the regulation of financial services entities, products and markets. Certain provisions of the Dodd-Frank Act are or may become applicable to FGL, its competitors or those entities with which FGL does business, including, but not limited to:

- the establishment of federal regulatory authority over derivatives;
- the establishment of consolidated federal regulation and resolution authority over systemically important financial services firms;
- the establishment of the Federal Insurance Office;
- changes to the regulation of broker dealers and investment advisors;
- changes to the regulation of reinsurance;
- changes to regulations affecting the rights of shareholders;
- the imposition of additional regulation over credit rating agencies;
- the imposition of concentration limits on financial institutions that restrict the amount of credit that may be extended to a single person or entity; and
- the clearing of derivative contracts.

Numerous provisions of the Dodd-Frank Act require the adoption of implementing rules or regulations. In addition, the Dodd-Frank Act mandates multiple studies, which could result in additional legislation or regulation applicable to the insurance industry, FGL, its competitors or those entities with which FGL does business. Legislative or regulatory requirements imposed by or promulgated in connection with the Dodd-Frank Act may impact FGL in many ways, including, but not limited to:

- placing FGL at a competitive disadvantage relative to FGL's competition or other financial services entities;
- changing the competitive landscape of the financial services sector or the insurance industry;
- making it more expensive for FGL to conduct its business;
- requiring the reallocation of significant company resources to government affairs;
- increasing FGL's legal and compliance related activities and the costs associated therewith; or
- otherwise having a material adverse effect on the overall business climate as well as FGL's financial condition and results of operations.

Until various studies are completed and final regulations are promulgated pursuant to the Dodd-Frank Act, the full impact of the Dodd-Frank Act on investments, investment activities and insurance and annuity products of FGL Insurance and FGL NY Insurance remains unclear.

ERISA

FGL may offer certain insurance and annuity products to employee benefit plans governed by ERISA and/or the U.S. Internal Revenue Code of 1986, as amended (the “Code”), including group annuity contracts designated to fund tax-qualified retirement plans. ERISA and the Code provide (among other requirements) standards of conduct for employee benefit plan fiduciaries, including investment managers and investment advisers with respect to the assets of such plans, and holds fiduciaries liable if they fail to satisfy fiduciary standards of conduct. Generally, FGL maintains policies and procedures that are intended to limit the circumstances under which FGL or any insurance subsidiary could be deemed a fiduciary with respect to plans covered by ERISA and/or the Code, or to the extent that they may be deemed to have such fiduciary status, to ensure compliance with applicable requirements of ERISA and/or the Code.

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In 1993, the U.S. Supreme Court issued an opinion in John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank, holding that certain contractholder funds held by John Hancock Mutual Life Insurance Company in its general account under a participating group annuity contract were “plan assets”, and therefore, subject to ERISA’s fiduciary provisions. However, under Section 401(b)(2) of ERISA, if an insurance company issues a guaranteed benefit policy to a plan, the assets of the plan are deemed to include the policy, but do not, solely by reason of the issuance of the policy, include any assets of the insurance company. Section 401(b)(2)(B) of ERISA defines the term “guaranteed benefit policy” to mean an insurance policy or contract to the extent such policy or contract provides for benefits the amount of which is guaranteed by the insurer. FGL and its insurance subsidiaries intend that their annuity contracts and life insurance policies qualify as guaranteed benefit policies as defined by Section 401(b)(2)(B) as further interpreted by court decisions and the U.S. Department of Labor ("DOL").

Employees

As of September 30, 2015, FGL had approximately 220 employees. As of September 30, 2015, none of FGL’s employees were represented by labor unions or covered by any collective bargaining agreements. FGL believes that it has a good relationship with its employees.

FGL Available Information

For information regarding FGL see the remaining section of this report. Interested parties may also read FGL’s Annual Report on Form 10-K for Fiscal 2015, a copy of which may be obtained on the SEC’s website. FGL’s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Exchange Act are made available free of charge on or through FGL’s website at home.fglife.com, as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC.

The information on FGL’s website is not, and shall not be deemed to be, part of this report or incorporated into any other filings HRG or FGL makes with the SEC and FGL’s reports are not and shall not be deemed to be part of this report. You may read and copy any materials FGL files with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains FGL’s reports and other information at www.sec.gov.

Front Street

Front Street, a Delaware corporation and a subsidiary of HRG, holds all of the equity of Front Street Re Ltd., a Bermuda company (“Front Street Bermuda”) and Front Street Cayman, an exempted company incorporated under the laws of the Cayman Islands and subsidiary of HRG. Front Street Bermuda was formed in March 2010 to act as a long-term reinsurer. Front Street Cayman was formed in the Cayman Islands and on October 24, 2012, received from the Cayman Islands Monetary Authority a license to carry on business as an Unrestricted Class “B” Insurer that permits Front Street Cayman to conduct offshore direct and reinsurance business. Front Street Bermuda and Front Street Cayman seek to enter into asset-intensive, long-duration, life and annuity liability reinsurance transactions with insurance companies, existing reinsurers, and pension arrangements, and may also pursue acquisitions in the same sector.

On December 31, 2012, FGL Insurance entered into the Cayman Reinsurance Agreement with Front Street Cayman. Pursuant to the Cayman Reinsurance Agreement, Front Street Cayman reinsures approximately 10%, or approximately $1.5 billion of FGL’s policy liabilities as of the effective date of the treaty. Under the terms of the agreement, Front Street Cayman paid FGL an initial ceding allowance of $15.0 million.

On December 18, 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 million of its annuity business to Front Street Cayman. The agreement, which was approved by the State of Florida Office of Insurance Regulation, is retroactive to November 30, 2013, and was Front Street Re’s inaugural reinsurance transaction with a non-affiliated party.

Effective September 17, 2014, FGL Insurance entered into a second reinsurance treaty with Front Street Cayman whereby FGL Insurance ceded 30% of any new business of its MYGAs block of business on a funds withheld basis. This treaty was subsequently terminated as to new business effective April 30, 2015 but will remain in effect for policies ceded to Front Street Cayman with an effective date between September 17, 2014 and April 30, 2015. Accordingly, policies issued with an effective date of May 1, 2015 and later will not be ceded to Front Street Cayman. In November 2014, Front Street Cayman purchased Ability Reinsurance (Bermuda) Limited ("Ability Re") from Ability Reinsurance Holdings Limited for $19.2 million. The Ability Re acquisition consisted of two closed block long-term care reinsurance agreements and the associated capital. During Fiscal 2015, Front Street Cayman also closed three additional reinsurance transactions with unaffiliated parties.

Strategy

Front Street aims to build a flexible and diversified portfolio by pursuing a range of life and annuity reinsurance opportunities. Front Street may also conduct hedging and other investment activities. Front Street may, from time to time, selectively pursue other opportunities, including acquisition, and/or disposition opportunities.

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Competition

The reinsurance industry is highly competitive. Front Street competes with major reinsurers, most of which are well established and have significant operating histories, strong financial strength ratings and long-standing client relationships. Front Street’s competitors include Athene Life Re Ltd., Global Atlantic Financial Group Limited, Guggenheim Life and Annuity Company, Reinsurance Group of America, Incorporated, Beechwood Reinsurance, Ltd., Legal & General Reinsurance Company Ltd., and Resolution Life Holdings, Inc., as well as smaller companies and other niche reinsurers. Front Street directly competes with these larger companies due to the breadth of their coverage across the reinsurance market in substantially all lines of business.

HAMCO

HAMCO, a Delaware limited liability company and subsidiary of HRG, is the holding company by which HRG holds its interests in the Asset Managers. The Asset Managers are comprised of Salus, EIC and CorAmerica. During Fiscal 2015, the only asset management agreement of Five Island Asset Management, LLC, another one of our asset managers, was terminated by Front Street and the operations of Five Island Asset Management, LLC were wound down.

Salus

Salus, a Delaware limited liability company and subsidiary of HAMCO, is a direct originator of secured asset-based loans to the middle market across a variety of industries. Salus commenced operations in December 2011 and provides secured asset-based loans to the middle market. Asset-based finance is a financing tool where the decision to lend is primarily based on the value of a borrower’s collateral. Collateral is viewed as the primary source of repayment, while a borrower’s creditworthiness is viewed a secondary source of repayment. While Salus has developed a variety of processes to value and monitor the collateral related to its loans and maintain its lien position in the collateral securing its loans, there can be no assurance that Salus will not suffer a partial or complete loss if any of the loans become non-performing.

As of September 30, 2015, Salus’ loans were funded through capital commitments from Salus' equity, funds committed by FGL Insurance and Front Street Cayman as participants and funds committed by Salus’ collateralized loan obligation (“CLO”) securitization. As of September 30, 2015, Salus, along with its co-lenders FGL Insurance and Front Street Cayman, have funded loans totaling $395.9 million aggregate principal amount outstanding on a consolidated basis. As of September 30, 2015, $125.5 million of Salus’ loans were delinquent in payment and the loan loss allowance established for these loans was $56.6 million.

In Fiscal 2013 and February 2015, Salus completed a CLO securitization of up to $578.5 notional aggregate principal amount. During the fourth quarter of 2015, Salus completed a restructuring of the CLO pursuant to a special redemption of the unaffiliated outstanding senior debt tranches, which reduced the CLO debt by $152.6 million. At September 30, 2015, the outstanding notional aggregate principal amount was $357.7 million, of which $40.4 million was taken up by unaffiliated entities and consisted entirely of subordinated debt. The subordinated tranches carry residual interest subject to maintenance of certain covenants. Due to losses incurred in the CLO, at September 30, 2015 the CLO was not accruing interest on the subordinated debt.

During Fiscal 2015, following certain organizational changes at Salus, Salus determined to focus its efforts primarily on monitoring, servicing and collecting its existing loans and not to underwrite any new loans after March 31, 2015. Salus may, however, pursue other opportunities that it may consider strategically advantageous or complementary to its efforts to collect on its existing loans. It is expected that Salus’ operations will significantly diminish as it collects on the loan in its portfolio.

CorAmerica

CorAmerica, a Delaware limited liability company and subsidiary of HAMCO, is a commercial real estate lender which originates and acquires both senior and subordinated mortgage loans for commercial and multi-family properties located in the U.S. CorAmerica commenced operations in 2009 and originates and acquires loans on various types of income-producing properties, including apartments, industrial properties, manufactured housing, mixed-use properties, office buildings and retail properties.

EIC

EIC, a Delaware limited liability company and subsidiary of HAMCO, is a debt capital investment manager specializing in direct lending to companies in the North America energy and infrastructure sectors. EIC commenced operations on April 3, 2014 and seeks to provide customized financing solutions by bringing together capital, domain expertise and investment experience to structure customized financing solutions.

Competition

The Asset Managers face intense competition from other companies engaged in lending and other investment-focused businesses. Many of the Asset Managers’ competitors are well established and have extensive experience in these areas. Such competitors may possess greater human, financial and other resources than the Asset Managers. Any of these factors may place any of the Asset Managers at a competitive disadvantage in contrast to their competitors.

Strategy
CorAmerica and EIC seek to grow their respective businesses sustainably and profitably, by focusing on their core area of expertise, while also, from time to time, pursuing additional opportunities that they may consider to be strategically advantageous or complementary to their existing operations. They may also seek additional capital through debt or equity financing activities and may, from time to time, selectively pursue acquisitions that are compatible with their existing operations. Salus seeks to focus its efforts primarily on the monitoring, servicing and collecting of its existing loans, but it may, from time to time, pursue other opportunities that it may consider strategically advantageous or complimentary to the efforts to collect on its existing loans.
Employees
As of September 30, 2015, HAMCO collectively employed 46 persons. As of September 30, 2015, none of HAMCO's employees were represented by labor unions or covered by collective bargaining agreements. Each Asset Manager believes that its overall relationship with its employees is good.
Compass
Compass GP, a Delaware limited liability company and a subsidiary of HRG, is engaged in the ownership, operation, acquisition, exploitation and development of conventional oil and natural gas assets in the U.S. Compass GP is the sole general partner of the Compass Limited Partnership. Compass GP owns a 2% general partner interest in the Compass Limited Partnership and all of the incentive distribution rights in the Compass Limited Partnership. Compass Limited Partnership owns a 100% membership interest in each of Compass Production Services, LLC ("EmployeeCo") and Compass Energy Operating, LLC (formerly, EXCO/HGI JV Assets, LLC, "Compass Operating"), which owns a 100% membership interest in Compass Gathering, LLC.
For a glossary of selected oil and natural gas terms, see Part I, Item 1. "Business-Our Operating Subsidiaries-Compass-Glossary of selected oil and natural gas terms" below.
Formation of Compass and Recent Events
Compass was formed on February 14, 2013 as a joint venture between HGI Energy and EXCO Resources, Inc. ("EXCO"). Thereafter, and until October 31, 2014, HGI Energy owned a 73.5% limited partnership interest in Compass Limited Partnership and a 50% limited liability company membership interest in Compass GP. The remaining interests in Compass GP and Compass Limited Partnership were owned by EXCO.
HGI Energy acquired its initial interest in Compass pursuant to a Unit Purchase and Contribution Agreement, dated as of November 5, 2012, as amended, pursuant to which it acquired, effective in economic terms as of July 1, 2012, from EXCO certain conventional oil, gas and mineral leases and wells located in shallow depths in the Permian Basin in West Texas and in East Texas/North Louisiana and certain contracts, easements, permits and rights-of-way, tangible assets, data and records, in each case, relating to such oil and gas properties. The EXCO Contributed Properties were acquired for $725.0 million of total consideration and adjusted pursuant to certain customary closing adjustments in the amount of $30.5 million for a net purchase price of $694.5 million. At the closing, HGI Energy contributed approximately $349.8 million in cash (reflecting the effect of closing adjustments and the economic benefits related to the July 1, 2012 effective date) to Compass, and EXCO and its subsidiary contributed $694.5 million of net assets in exchange for cash of $574.8 million, and retained an interest of $119.1 million in Compass.
On March 5, 2013, Compass acquired from BG US Production Company, LLC ("BG Production") pursuant to a Purchase and Sale Agreement dated as of February 14, 2013, certain conventional oil and natural gas assets in the Danville, Waskom and Holly fields in East Texas and North Louisiana, including and above the Cotton Valley formation from BG Production for $130.9 million, after customary preliminary closing adjustments. The economic effective date of the transactions was January 1, 2013, and the properties acquired from BG Production represented an incremental working interest properties acquired from EXCO.
On October 6, 2014, HGI Energy entered into a purchase agreement with EXCO and certain of its affiliates and certain subsidiaries of Compass Limited Partnership, pursuant to which EXCO agreed to transfer to HGI Energy all of its remaining interests in Compass Limited Partnership and Compass GP in exchange for a cash payment of $118.75 million (the "2014 Compass Acquisition"). The 2014 Compass Acquisition from EXCO closed on October 31, 2014, upon which HGI Energy became the owner of 99.8% of the economic interest in Compass. In connection with the transaction, EXCO and Compass entered into a transition services agreement pursuant to which EXCO and certain of

its affiliates agreed to provide transition services to Compass for a period of six months following the closing. Compass terminated the transitions services agreement on April 30, 2015 and became a standalone operating company at that time. In connection with the closing, Compass entered into several short-term agreements with EXCO, under which EXCO would continue to market and sell Compass' natural gas production from Vernon and Waskom fields. These short-term agreements have terms ending on December 31, 2015 and January 1, 2016, respectively. Compass also entered into a long-term agreement under which EXCO will continue to market and sell Compass' natural gas production from portions of the Holly field until November 30, 2020. Compass expects to enter into new contracts with other natural gas marketing companies prior to the expiration of its current arrangements with EXCO. If Compass fails to replace these contracts prior to their expiration dates, Compass will market its natural gas production internally.

On October 8, 2015, Compass Operating entered into a purchase agreement with the Compass Asset Buyer, pursuant to which the Compass Asset Buyer agreed to purchase certain of Compass Operating's oil and gas interests located in the Holly, Waskom and Danville Fields in East Texas and North Louisiana for a cash purchase price of $160.0 million (the "Compass Asset Sale"). The purchase price is subject to customary closing adjustments, including adjustments for title and environmental defects and revenues and expenses attributable to periods after July 1, 2015. Proceeds from the transaction are expected to be used to reduce borrowings under Compass' existing credit facility. The transaction is subject to customary closing conditions and is expected to close, subject to satisfaction of such closing conditions, on or about December 1, 2015. The parties may terminate the Purchase Agreement at any time following December 31, 2015 if closing has not occurred by such date.

Strategy

Compass' primary business objective is to generate stable cash flows through the efficient and profitable operations of its oil and natural gas assets and to reduce its debt through one or more opportunistic disposition or acquisition opportunities. In addition, Compass may pursue economic development of its proved undeveloped drilling inventory, low risk recompletion inventory and to perform cost-reducing and production-enhancing operations to maintain its production on a cost effective basis. Compass may also use oil and natural gas derivatives and financial risk management instruments to manage its exposure to commodity prices.

Competition

Compass operates in a highly-competitive environment, including competition in the efficient and cost effective operations, the marketing and sale of oil, natural gas and natural gas liquids, the securing of qualified personnel and disposing and acquiring of properties. Many of Compass' competitors are large companies that possess and employ substantially greater financial, technical and personnel resources, which can be particularly important in the areas in which Compass operates and in the pursuit and consummation of disposition and acquisition opportunities. Compass can also be affected by competition for drilling rigs, completion rigs, workover rigs, completion services and the availability of related equipment.

Marketing, Customers and Transportation

Compass markets the majority of the oil, natural gas and NGL production from properties it operates for both Compass' account and the account of the other working interest owners in these properties. Oil, natural gas and NGL purchasers are generally selected on the basis of price, credit quality and service reliability, with the exception that in connection with our 2014 transaction with EXCO, Compass entered into several short-term agreements with EXCO, under which EXCO continues to market and sell Compass' natural gas production from the Vernon and Waskom fields. These short-term agreements have terms ending on December 31, 2015 and January 1, 2016, respectively. Compass also entered into a long-term agreement under which EXCO will continue to market and sell Compass' natural gas production from portions of the Holly field until November 30, 2020. Production from Compass' properties is marketed using methods that are consistent with industry practice. Sales prices for oil, natural gas and NGL production under new contracts are negotiated based on factors normally considered in the industry, such as index or spot price, distance from the well to the pipeline, commodity quality and prevailing supply and demand conditions. Compass' oil production is sold to crude oil processors, transporters and refining and marketing companies in the area where it is produced. Compass' natural gas production is sold to utilities, marketing and midstream companies and industrial users. Compass' NGL production is typically sold to natural gas processors or users of NGLs.

Compass normally sells production to a relatively small number of customers, as is customary in the exploration, development and production business. However, based on the current demand for oil and natural gas, and the availability of other purchasers, Compass believes that the loss of any one or all of its major purchasers would not have a material adverse effect on Compass' financial condition and results of operations, as crude oil and natural gas are fungible products with well-established markets and numerous purchasers.

Compass incurs gathering and transportation expenses to move its production from the wellhead and tanks to purchaser specified delivery points. These expenses vary based on volume, distance shipped and the fee charged by the third-party gatherers and transporters. Compass attempts to balance sales, storage and transportation positions, which can include purchase of commodities from third parties for resale, to satisfy transportation commitments. In some instances, Compass' oil is transported from the wellhead to tank batteries by Compass's or a third party's gathering system. The oil is then transported by the purchaser by truck to a tank farm or by pipeline. Compass' natural gas is generally transported from the wellhead to the purchaser's pipeline interconnection point through Compass' or a third party's gathering system.

Compass' Oil and Natural Gas Reserves

The following table summarizes the Proved Reserves of Compass and does not give effect to the Compass Asset Sale. The reserves at September 30, 2015 and 2014 represented 100.0% of Compass' consolidated results and our 74.4% proportionate interest in Compass, respectively. This information was prepared in accordance with the rules and regulations of the SEC.

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	As of September 30,	
	2015	2014
Oil (Mbbls)		
Developed	4,085	3,356
Undeveloped	153	334
Total	4,238	3,690
Natural Gas Liquids (Mbbls)		
Developed	5,403	5,145
Undeveloped	8	1,075
Total	5,411	6,220
Natural Gas (Mmcf)		
Developed	329,485	304,628
Undeveloped	44	4,812
Total	329,529	309,440
Natural Gas Equivalent Reserves (Mmcfe)		
Developed	386,409	355,634
Undeveloped	1,007	13,266
Total	387,416	368,900
PV-10 (in millions) (1)		
Developed	$226.6	$407.5
Undeveloped	1.5	3.7
Total	$228.1	$411.2
Standardized Measure (in millions) (2)	$228.1	$345.8

(1) The PV-10 is based on the following average spot prices, in each case adjusted for historical differentials. Prices presented in the table below are the trailing 12 month simple average spot price at the first of the month for natural gas at Henry Hub and West Texas Intermediate crude oil at Cushing, Oklahoma. The prices for NGLs were computed using the average of realized prices for the trailing 12 months.

	Average spot prices		
	Natural gas (per Mmbtu)	Oil (per Bbl)	Natural gas liquid (per Bbl)
September 30, 2015	$3.06	$59.21	$21.50
September 30, 2014	4.24	99.08	43.58

(2) Compass believes that PV-10, while not a financial measure in accordance with U.S. GAAP, is an important financial measure used by investors and independent oil and natural gas producers for evaluating the relative significance of oil and natural gas properties and acquisitions due to tax characteristics, which can differ significantly, among comparable companies. The Standardized Measure is calculated in accordance with the Financial Accounting Standards Board ("FASB"), Accounting Standards Codification 932, Extractive Activities, Oil and Gas ("ASC 932"). The amount of estimated future plugging and abandonment costs, the PV-10 of these costs and the Standardized Measure were determined by us. We do not designate our derivative financial instruments as hedges and accordingly, do not include the impact of derivative financial instruments when computing the Standardized Measure.

The following table provides a reconciliation of our PV-10 to our Standardized Measure (in millions):

	As of September 30,	
	2015	2014
PV-10	$228.1	$411.2
Future income taxes	—	(136.2)
Discount of future income taxes at 10% per annum	—	70.8
Standardized Measure	$228.1	$345.8

The management of Compass has established, and is responsible for, internal controls designed to provide reasonable assurance that the estimates of Proved Reserves are computed and reported in accordance with rules and regulations promulgated by the SEC as well as established industry practices used by independent engineering firms and our peers. These internal controls include documented process workflows, qualified professional engineering and geological personnel with specific reservoir experience and investment in on-going education with emphasis on emerging technologies. Compass also retains an outside independent engineering firm to prepare estimates of Proved Reserves.

The estimates of Proved Reserves and future net cash flows as of September 30, 2015 and 2014 have been prepared by Lee Keeling and Associates, Inc. (“Lee Keeling”). Lee Keeling is an independent petroleum engineering firm that performs a variety of reserve engineering and valuation assessments for public and private companies, financial institutions and institutional investors. Compass’ internal technical employees responsible for reserve estimates and interaction with its independent engineers include corporate officers with petroleum and other engineering degrees, professional certifications and industry experience similar to those of our independent engineering firms. The estimates of future plugging and abandonment costs necessary to compute PV-10 and Standardized Measure were computed internally.

Estimates of oil and natural gas reserves are projections based on a process involving an independent third party engineering firm's extensive visits, collection of any and all required geological, geophysical, engineering and economic data, and such firm's complete external preparation of all required estimates and are forward-looking in nature. These reports rely on various assumptions, including definitions and economic assumptions required by the SEC, including the use of constant oil and natural gas pricing, use of current and constant operating costs and current capital costs. Compass also makes assumptions relating to availability of funds and timing of capital expenditures for development of its Proved Undeveloped Reserves. These reports should not be construed as the current market value of Compass' Proved Reserves. The process of estimating oil and natural gas reserves is also dependent on geological, engineering and economic data for each reservoir. Because of the uncertainties inherent in the interpretation of this data, no assurance can be provided that the Proved Reserves will ultimately be realized. Compass' actual results could differ materially. See Part I, Item 1."Business-Our Operating Subsidiaries-Compass-Supplemental information relating to oil and natural gas producing activities" for additional information regarding our oil and natural gas reserves and the Standardized Measure.

Lee Keeling also examined Compass' estimates with respect to reserve categorization, using the definitions for Proved Reserves set forth in SEC Regulation S-X Rule 4-10(a) and SEC staff interpretations and guidance. In preparing an estimate of Compass' Proved Reserves and future net cash flows attributable to its interests, Lee Keeling did not independently verify the accuracy and completeness of information and data furnished by Compass with respect to ownership interests, oil and natural gas production, well test data, historical costs of operation and development, product prices, or any agreements relating to current and future operations of the properties and sales of production. However, if in the course of the examination anything came to the attention of Lee Keeling which brought into question the validity or sufficiency of any such information or data, Lee Keeling did not rely on such information or data until they had satisfactorily resolved their questions relating thereto or had independently verified such information or data. Lee Keeling determined that their estimates of Proved Reserves conform to the guidelines of the SEC, including the criteria of "reasonable certainty," as it pertains to expectations about the recoverability of Proved Reserves in future years, under existing economic and operating conditions, consistent with the definition in Rule 4-10(a)(24) of SEC Regulation S-X.

Proved Undeveloped Reserves

The following table summarizes the changes in Compass' Proved Undeveloped Reserves, all of which are expected to be developed within five years, for the year ended September 30, 2015:

	Mmcfe
Proved Undeveloped Reserves at September 30, 2014	13,266
New discoveries and extensions (1)	1,007
Other Revisions of previous estimates of Proved Undeveloped Reserves (2)	(13,266)
Proved Undeveloped Reserves at September 30, 2015	1,007

(1) All of the discoveries and extensions of Proved Undeveloped Reserves during the period occurred in the Permian region.

(2) The net downward revisions are primarily due to scheduling and changes in prices and costs resulting from decreased oil and natural gas average prices.

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Production, Sales Prices, and Production Cost

Prior to October 31, 2014, the operating results of Compass represented our 74.4% proportionate interest. Operating results after October 31, 2014 represent 100.0% of Compass' consolidated results. The table below does not give effect to the Compass Asset Sale. The following table sets forth Compass' production, sales prices and production costs (in millions, except for volumes and unit sales prices).

	Fiscal		Period from Inception to September 30,
	2015	2014	2013
Oil			
Production sold (Mbbls)	479	414	283
Average sales price (per Bbl)	$51.42	$91.92	$94.63
Natural Gas Liquids			
Production sold (Mbbls)	606	521	300
Average sales price (per Bbl)	$21.15	$43.49	$38.11
Natural Gas			
Production sold (Mmcf)	24,934	20,882	14,570
Average sales price (per Mcf)	$2.80	$4.13	$3.57
Cost and Expenses			
Average production cost per Mcfe (excluding severance and ad valorem taxes)	$1.77	$1.63	$1.50
General and administrative expenses per Mcfe	0.50	0.31	0.27
Depletion per Mcfe	1.31	1.45	1.67

Prior to October 31, 2014, the operating results of Compass represented our 74.4% proportionate interest. Operating results after October 31, 2014 represent 100.0% of Compass' consolidated results. The table below does not give effect to the Compass Asset Sale. The following table provides additional information related to Compass' interest in its Vernon, Holly and Permian fields, each of which exceeded 15% of our total Proved Reserves as of September 30, 2015.

	Fiscal		Period from Inception to September 30,
	2015	2014	2013
Permian Area:			
Oil production sold (Mbbls)	354	316	217
NGL production sold (Mbbls)	420	379	224
Natural gas production (Mmcf)	1,811	1,681	1,120
Vernon Area:			
Oil production sold (Mbbls)	9	3	2
Natural gas production (Mmcf)	11,720	10,670	7,482
Holly Field:			
Oil production sold (Mbbls)	16	15	10
NGL production sold (Mbbls)	134	103	75
Natural gas production (Mmcf)	6,075	4,789	3,178

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Interest in Productive Wells

The following table quantifies information regarding productive wells (wells that are currently producing oil or natural gas or are capable of production), including temporarily shut-in wells. The number of total gross oil and natural gas wells excludes any multiple completions. Gross wells refer to the total number of physical wells in which Compass holds a working interest, regardless of its percentage interest. A net well is not a physical well, but is a concept that reflects the actual total working interests Compass holds in all wells. Compass computes the number of net wells by totaling the percentage interests Compass holds in all gross wells.

	At September 30, 2015					
	Gross wells (1)			Net wells		
Areas	Oil	Natural gas	Total	Oil	Natural gas	Total
East Texas/North Louisiana	52	829	881	50	757	807
Permian and other	370	49	419	364	49	413
Total	422	878	1,300	414	806	1,220

(1) As of September 30, 2015, Compass was the operator of 1,300 gross (1,220 net) wells, which represented approximately 99% of its proved developed producing reserves.

Drilling Activities

The drilling activities of Compass have been primarily focused on developmental wells in the Permian region. The following table summarizes Compass' approximate gross and net interests in the development wells it drilled during the periods indicated. Compass has drilled no exploratory wells. This information should not be considered indicative of future performance, nor should it be assumed that there was any correlation between the number of productive wells drilled and the oil and gas reserves generated thereby or the costs to Compass of productive wells compared to the costs of dry holes.

	Development wells					
	Gross			Net		
	Productive	Dry	Total	Productive	Dry	Total
Fiscal 2015	1	—	1	1	—	1
Fiscal 2014	7	3	10	5	2	7
Period from inception to September 30, 2013	15	1	16	10	1	11

As of September 30, 2015, Compass was not in the process of drilling any wells.

Developed and Undeveloped Acreage

Developed acreage includes those acres spaced or assignable to producing wells. Undeveloped acreage represents those acres that do not currently have completed wells capable of producing commercial quantities of oil or natural gas, regardless of whether the acreage contains Proved Reserves. The definitions of gross acres and net acres conform to how Compass determines gross wells and net wells. The following table sets forth Compass' developed and undeveloped acreage:

	At September 30, 2015			
	Developed		Undeveloped	
Area	Gross	Net	Gross	Net
East Texas/North Louisiana	95,593	84,797	3,493	1,798
Permian and other	63,537	57,684	1,606	1,251
Total	159,130	142,481	5,099	3,049

The primary terms of Compass' oil and natural gas leases expire at various dates. Much of its undeveloped acreage is held-by-production, which means that these leases are active as long as Compass produces oil or natural gas from the acreage or complies with certain lease terms. Upon ceasing production, these leases will expire.

As of September 30, 2015, based on contractual lease maturities, approximately 2 gross (2 net) undeveloped acres will expire

in the fiscal year ending September 30, 2016 and no undeveloped acreage will expire in the fiscal years ending September 30, 2017 to September 30, 2020.
The held-by-production acreage in many cases represents potential additional drilling opportunities through down-spacing and drilling of proved undeveloped and unproved locations in the same formation(s) already producing, as well as other non-producing formations, in a given oil or natural gas field without the necessity of purchasing additional leases or producing properties.
Seasonal Nature of Business
Generally, but not always, the demand for natural gas decreases during the summer months and increases during the winter

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months, resulting in seasonal fluctuations in the price Compass receives for its natural gas production. Seasonal anomalies such as mild winters or hot summers sometimes lessen this fluctuation.
Environmental and Occupational Health and Safety Matters
General
Compass' operations are subject to stringent and complex federal, state and local laws and regulations governing aspects of occupational health and safety, environmental protection, as well as the discharge of materials into the environment. Numerous governmental entities, including the EPA and analogous state entities have the power to enforce compliance with these laws and regulations and the permits issued under them, often requiring difficult and costly actions. These laws and regulations may, among other things (i) require the acquisition of permits to conduct exploration, drilling and production operations; (ii) restrict the types, quantities and concentration of various substances that can be released into the environment or injected into formations in connection with oil and natural gas drilling and production activities; (iii) limit or prohibit drilling activities on certain lands lying within wilderness, wetlands and other protected areas; (iv) require remedial measures to mitigate pollution from former and ongoing operations, such as requirements to close pits and plug abandoned wells; (v) impose specific health and safety criteria addressing work protection; and (vi) impose substantial liabilities for pollution resulting from drilling and production operations. Any failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal penalties, the imposition of corrective or remedial obligations, and the issuance of orders enjoining performance of some or all of Compass' operations.
These laws and regulations may also restrict the rate of oil and natural gas production below the rate that would otherwise be possible. The regulatory burden on the oil and natural gas industry increases the cost of doing business in the industry and consequently affects profitability. The trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment, and thus any changes that result in more stringent and costly well drilling, construction, completion or water management activities, or waste handling, storage, transport, disposal and cleanup requirements for the oil and natural gas industry could have a material adverse effect on the financial position and results of operations of Compass. Compass may be unable to pass on such increased compliance costs to its customers. Moreover, accidental releases or spills may occur in the course of its operations, and there can be no assurance that Compass will not incur significant costs and liabilities as a result of such releases or spills, including third-party claims for damage to property, natural resources or persons. While management of Compass believes that it is in substantial compliance with existing environmental laws and regulations and that continued compliance with existing requirements will not materially affect Compass, there is no assurance that this current level of regulation will not become more onerous in the future.
The following is a summary of the more significant existing and proposed environmental and occupational health and safety laws and regulations, as amended from time to time, to which the business operations of Compass is or may be subject and for which compliance may have a material adverse impact on Compass' capital expenditures, results of operations or financial position.
Hazardous Wastes and Substances
The Resource Conservation and Recovery Act ("RCRA"), and comparable state statutes, regulate the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. Under the auspices of the EPA, most states, including Texas and Louisiana, administer some or all of the provisions of RCRA, sometimes in conjunction with their own, more stringent requirements. Drilling fluids, produced waters, and most of the other wastes associated with the exploration, development, and production of crude oil or natural gas, if properly handled, are currently regulated under RCRA's non-hazardous waste provisions. However, it is possible that certain oil and natural gas drilling and production wastes now classified as non-hazardous could be classified as hazardous wastes in the future, resulting in the imposition of relatively more stringent requirements. Any such change could result in an increase in Compass' costs to manage and dispose of regulated wastes, which could have a material adverse effect on its results of operations and financial position. In the course of Compass' operations, it generates ordinary industrial wastes, such as paint wastes, waste solvents and waste oils that may be regulated as hazardous wastes.
CERCLA, also known as the Superfund law, and comparable state laws, impose joint and several liability, without regard to fault or legality of conduct, on classes of persons who are considered to be responsible for the release of a

hazardous substance into the environment. These persons include the owner or operator of the site where the release occurred and anyone who disposed or arranged for the disposal of a hazardous substance released at the site. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. CERCLA also authorizes the EPA (and, in some instances, third parties) to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. In addition, it is not uncommon for neighboring landowners and other third-parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. Compass generates materials in the course of its operations that may be regulated as hazardous substances.

In addition, Compass currently owns, leases, or operates properties that may have been used for oil and natural gas exploration and production activities. Such properties and the substances disposed or released on, under or from them (if any) may be subject to CERCLA, RCRA and analogous state laws. Under such laws, Compass may be required to undertake response or corrective measures, which could include removal of previously disposed substances and wastes, cleanup of contaminated property or performance of remedial plugging or pit closure operations to prevent future contamination.

Water Discharges and Subsurface Injections

The Federal Water Pollution Control Act, also known as the Clean Water Act ("CWA"), and analogous state laws, impose restrictions and strict controls with respect to the discharge of pollutants, including spills and leaks of oil and other substances, into waters of the U.S. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA or an analogous state agency. Spill prevention, control and countermeasure ("SPCC") plan requirements imposed under the CWA require appropriate containment berms and similar structures to help prevent the contamination of navigable waters in the event of a petroleum hydrocarbon tank spill, rupture or leak. In addition, the CWA and analogous state laws require individual permits or coverage under general permits for discharges of storm water runoff from certain types of facilities. The CWA also prohibits the discharge of dredge and fill material in regulated waters, including wetlands, unless authorized by permit. Federal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance with discharge permits or other requirements of the CWA and analogous state laws and regulations.

The Oil Pollution Act of 1990 ("OPA") amends the CWA and sets minimum standards for prevention, containment and cleanup of oil spills in waters of the U.S. from vessels, offshore facilities, and onshore facilities, including exploration and production facilities that may affect such waters. Under OPA, responsible parties, including owners and operators of onshore facilities, may be held strictly liable for oil cleanup costs and natural resource damages, as well as a variety of public and private damages that may result from oil spills. The OPA also requires owners or operators of certain onshore facilities to prepare Facility Response Plans for responding to a worst-case discharge of oil into waters of the U.S.

Compass' injection well facilities may be regulated under the Underground Injection Control ("UIC"), program established under the Safe Water Drinking Act ("SDWA"). The state and federal regulations implementing that program require mechanical integrity testing and financial assurance for wells covered under the program. The federal Energy Policy Act of 2005 amended the UIC provisions of the federal SDWA to exclude all hydraulic fracturing activities other than those using diesel from the definition of underground injection. Congress has from time to time considered bills to repeal this exemption. Further, some states have adopted and others are considering legislation to restrict hydraulic fracturing. Texas and Louisiana have each adopted regulations requiring drilling operators conducting hydraulic fracturing activities to publicly disclose the chemicals that are used.

Air Emissions

The Federal Clean Air Act, and comparable state laws, regulates emissions of various air pollutants through air emissions standards, construction and operating permit programs and the imposition of other compliance requirements. These laws and regulations may require Compass to obtain pre-approval for the construction or modification of certain projects or facilities expected to produce or significantly increase air emissions, obtain and strictly comply with stringent air permit requirements or utilize specific equipment or technologies to control emissions of certain pollutants. The need to obtain permits has the potential to delay the development of oil and natural gas projects. Over the next several years, Compass may be required to incur certain capital expenditures for air pollution control equipment or other air emissions-related issues. For example, on August 16, 2012, the EPA published final rules under the CAA that subject oil and natural gas production, processing, transmission and storage operations to regulation under the New Source Performance Standards and National Emission Standards for Hazardous Air Pollutants programs. With regards to production activities, these final rules require, among other things, the reduction of volatile organic compound emissions from three subcategories of fractured and refractured gas wells for which well completion operations are conducted: wildcat (exploratory) and delineation gas wells; low reservoir pressure non-wildcat and non-delineation gas wells; and all "other" fractured and refractured gas wells. All three subcategories of wells must route flow back emissions to a gathering line or be captured and combusted using a combustion device, such as a flare after October 15, 2012. However, the “other” wells must use reduced emission completions, also known as “green completions,” with or without combustion devices, after January 1, 2015. These regulations also establish specific new requirements regarding emissions from production-related wet seal and reciprocating compressors, pneumatic controllers and storage vessels. Compliance with these requirements could increase our costs of development and production, which costs could be significant.

Endangered Species Act Considerations

The Endangered Species Act (“ESA”) may impact Compass’ exploration, development and production activities on public or private lands. The ESA provides broad protection for species of fish, wildlife and plants that are listed as threatened or endangered in the U.S., and prohibits taking of endangered species. Federal agencies are required to ensure that any action authorized, funded or carried out by them is not likely to jeopardize the continued existence of listed species or modify their critical habitat. While some of Compass’ facilities may be located in areas that are designated as habitat for endangered or threatened species, Compass’ management believe that Compass is in substantial compliance with the ESA. If endangered species are located in areas of the

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underlying properties where Compass' management wishes to conduct certain of Compass' operations, such operations could be prohibited or delayed or expensive mitigation may be required. Moreover, as a result of a settlement approved by the U.S. District Court for the District of Columbia in September 2011, the U.S. Fish and Wildlife Service is required to make a determination on listing of more than 250 species as endangered or threatened under the ESA by no later than completion of the agency's 2017 fiscal year. The designation of previously unprotected species as threatened or endangered in areas where underlying property operations are conducted could cause Compass to incur increased costs arising from species protection measures or could result in limitations on the exploration and production activities of Compass that could have an adverse impact on its ability to develop and produce reserves.

Activities on Federal Lands

Oil and natural gas exploration and production activities on federal lands, including Indian lands and lands administered by the federal Bureau of Land Management ("BLM"), are subject to the National Environmental Policy Act ("NEPA"). NEPA requires federal agencies, including the BLM, to evaluate major agency actions having the potential to significantly impact the environment. In the course of such evaluations, an agency may prepare an Environmental Assessment that assesses the potential direct, indirect and cumulative impacts of a proposed project and, if necessary, will prepare a more detailed Environmental Impact Statement that may be made available for public review and comment. Currently, Compass has minimal exploration and production activities on federal lands. Any exploration and production activities on federal lands requiring governmental permits are subject to the requirements of NEPA. This process has the potential to delay or limit, or increase the cost of, the development of oil and natural gas projects. Authorizations under NEPA are subject to protest, litigation or appeal, any or all of which may delay or halt projects.

Hydraulic Fracturing Regulation

Over the past few years, there has been an increased focus on environmental aspects of hydraulic fracturing activities in the United States. Hydraulic fracturing involves the injection of water, sand and chemicals under pressure into formations to fracture the surrounding rock and stimulate production. While hydraulic fracturing is typically regulated by state oil and natural gas commissions in the United States, there have recently been a number of regulatory initiatives at the federal and local levels as well as by other state agencies.

The SDWA currently exempts from regulation the injection of fluids or propping agents (other than diesel fuels) for hydraulic fracturing operations. Congress has periodically considered legislation to amend the federal SDWA to remove the exemption from regulation and permitting that is applicable to hydraulic fracturing operations and to require reporting and disclosure of chemicals used by the oil and natural gas industry in the hydraulic fracturing process. Sponsors of bills previously introduced before the Senate and House of Representatives have asserted that chemicals used in the fracturing process could adversely affect drinking water supplies. Many states have considered or adopted legislation regulating hydraulic fracturing, including the disclosure of chemicals used in the process. These bills, or similar legislation, if adopted, could increase the possibility of litigation and establish an additional level of regulation at the federal level that could lead to operational delays or increased operating costs and could result in additional regulatory burdens, making it more difficult to perform hydraulic fracturing and increasing our costs of compliance.

In addition, the EPA has recently been taking action to assert federal regulatory authority over hydraulic fracturing using diesel under the SDWA's Underground Injection Control Program and has issued guidance regarding its authority over the permitting of these activities. Further, in March 2010, the EPA announced that it would conduct a wide-ranging study on the effects of hydraulic fracturing on drinking water resources. In December 2012, the EPA issued a progress report on its hydraulic fracturing study; a final draft has not been released. The agency also announced that one of its enforcement initiatives for 2014 to 2016 would be to focus on environmental compliance by the energy extraction sector. This study and enforcement initiative could result in additional regulatory scrutiny or further legislative or regulatory action regarding hydraulic fracturing or similar production operations that could make it difficult to perform hydraulic fracturing and increase Compass' costs of compliance or significantly impact Compass' business, results of operations, cash flows, financial position and future growth.

Additionally, the Bureau of Land Management has proposed regulations on hydraulic fracturing activities on Federal land. The EPA has also announced an initiative under the Toxic Substances Control Act to develop regulations governing the disclosure and evaluation of hydraulic fracturing chemicals, and is working on regulations governing wastewater generated by hydraulic fracturing. In addition, state, local and river basin conservancy districts have all previously exercised their various regulatory powers to curtail and, in some cases, place moratoriums on hydraulic fracturing. Regulations include express inclusion of hydraulic fracturing into existing regulations covering other aspects of exploration and production and specifically may include, but not be limited to, the following:

- requirement that logs and pressure test results are included in disclosures to state authorities;
- disclosure of hydraulic fracturing fluids, chemicals, proppants and the ratios of same used in operations;
- specific disposal regimens for hydraulic fracturing fluid;
- replacement/remediation of contaminated water assets; and
- minimum depth of hydraulic fracturing.

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Local regulations, which may be preempted by state and federal regulations, have included the following which may extend to all operations including those beyond hydraulic fracturing:
•noise control ordinances;
•traffic control ordinances;
•limitations on the hours of operations; and
•mandatory reporting of accidents, spills and pressure test failures.
If in the course of Compass' routine oil and natural gas operations, surface spills and leaks occur, including casing leaks of oil or other materials, Compass may incur penalties and costs for waste handling, remediation and third party actions for damages. Moreover, Compass is only able to directly control the operations of the wells that it operates. Notwithstanding Compass' lack of control over the wells it owns that are operated by others, the failure of the operator to comply with applicable environmental regulations may be attributable to Compass and may impose legal liabilities upon Compass.
If substantial liabilities to third parties or governmental entities are incurred, the payment of such claims may reduce or eliminate the funds available for project investment or result in loss of Compass' properties. Although Compass maintains insurance coverage it considers to be customary in the industry, Compass is not fully insured against all of these risks. Accordingly, Compass may be subject to liability or may lose substantial portions of properties due to hazards that cannot be insured against or have not been insured against due to prohibitive premiums or for other reasons. The imposition of any of these liabilities or compliance obligations on Compass may have a material adverse effect on Compass' financial condition and results of operations.
Climate Change
Based on findings made by the EPA in December 2009 that emissions of GHGs, present an endangerment to public health and the environment, the EPA adopted regulations under existing provisions of the CAA that, among other things, establish PSD, construction and Title V operating permit reviews for certain large stationary sources that are potential major sources of GHG emissions. Facilities required to obtain PSD permits for their GHG emissions also will be required to meet "best available control technology" standards that will be established by the states or, in some cases, by the EPA on a case-by-case basis. These EPA rulemakings could adversely affect Compass' operations and restrict or delay its ability to obtain air permits for new or modified sources. In addition, the EPA has adopted rules requiring the monitoring and reporting of GHG emissions on an annual basis, which may include a portion of Compass' operations. Compass monitors its GHG emissions and believes that its monitoring activities are in substantial compliance with applicable reporting obligations.
While Congress has from time to time considered legislation to reduce emissions of GHGs, there has not been significant activity in the form of adopted legislation to reduce GHG emissions at the federal level in recent years. In the absence of such federal climate legislation, a number of state and regional efforts have emerged that are aimed at tracking and/or reducing GHG emissions by means of cap and trade programs that typically require major sources of GHG emissions to acquire and surrender emission allowances in return for emitting those GHGs. It is currently not possible to predict the future cost or availability of allowances, but the purchase price of such allowances could increase significantly in any given year. If Congress undertakes comprehensive tax reform in the coming years, it is possible that such reform may include a carbon tax, which could impose additional direct costs on operations and reduce demand for refined products. Although it is not possible at this time to predict how legislation or new regulations that may be adopted to address GHG emissions would impact the business of Compass, any such future laws and regulations that require reporting of GHGs or otherwise limit emissions of GHGs from the equipment and operations of Compass could require Compass to incur costs to monitor and report on GHG emissions or reduce emissions of GHGs associated with its operations, and such requirements also could adversely affect demand for the oil and natural gas that is produced by Compass. Finally, it should be noted that some scientists have concluded that increasing concentrations of greenhouse gases in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, droughts and floods and other climatic events. If any such effects were to occur in areas where Compass operates, they could have an adverse effect on the assets and operations of Compass.
Worker Safety and Health Considerations

Compass is subject to the requirements of the federal Occupational Safety and Health Act ("OSHA") and comparable state statutes whose purpose is to protect the health and safety of workers. In addition, the OSHA hazard communication standard, the Emergency Planning and Community Right to Know Act and implementing regulations, and similar state statutes and regulations require that Compass organize and/or disclose information about hazardous materials used or produced in its operations and that this information be provided to employees, state and local governmental authorities and citizens. We believe that Compass is in substantial compliance with all applicable laws and regulations relating to worker health and safety.

Other Regulation of the Oil and Natural Gas Industry

The oil and natural gas industry is extensively regulated by numerous federal, state and local authorities. Legislation affecting the oil and natural gas industry is under constant review for amendment or expansion, frequently increasing the regulatory burden. Additionally, numerous departments and agencies, both federal and state, are authorized by statute to issue rules and regulations that are binding on the oil and natural gas industry and its individual members, some of which carry substantial penalties for

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failure to comply. Although the regulatory burden on the oil and natural gas industry increases the cost of Compass doing business and, consequently, affects its profitability, these burdens generally do not affect it any differently or to any greater or lesser extent than they affect other participants in the oil and natural gas industry with similar types, quantities and locations of production.

Legislation continues to be introduced in Congress, and the development of regulations continues in the Department of Homeland Security and other agencies concerning the security of industrial facilities, including oil and natural gas facilities. Accordingly, the operations of Compass may be subject to such laws and regulations.

Drilling and Production

The operations of Compass are subject to various types of regulation at federal, state and local levels. These types of regulation include requiring permits for the drilling of wells, drilling bonds and reports concerning operations. Most states, and some counties and municipalities, in which Compass operates also regulate one or more of the following:

- the location of wells;
- the method of drilling and casing wells;
- the surface use and restoration of properties upon which wells are drilled;
- the plugging and abandoning of wells; and
- notice to surface owners and other third parties.

State laws regulate the size and shape of drilling and spacing units or proration units governing the pooling of oil and natural gas properties. Some states allow forced pooling or integration of tracts to facilitate exploration, while other states rely on voluntary pooling of lands and leases. In some instances, forced pooling or unitization may be implemented by third parties and may reduce our interest in the unitized properties. In addition, state conservation laws establish maximum rates of production from oil and natural gas wells, generally prohibit the venting or flaring of natural gas and impose requirements regarding the ratability of production. These laws and regulations may limit the amount of oil and natural gas Compass can produce from its wells or limit the number of wells or the locations at which it can drill. Moreover, each state generally imposes a production or severance tax with respect to the production and sale of oil, natural gas and NGLs within its jurisdiction.

Natural Gas Regulation

The availability, terms and cost of transportation significantly affect sales of natural gas. The interstate transportation and sale or resale of natural gas is subject to federal regulation, including regulation of the terms, conditions and rates for interstate transportation, storage and various other matters, primarily by the Federal Energy Regulatory Commission. Federal and state regulations govern the price and terms for access to natural gas pipeline transportation. The Federal Energy Regulatory Commission’s regulations for interstate natural gas transmission in some circumstances may also affect the intrastate transportation of natural gas.

Although natural gas prices are currently unregulated, Congress historically has been active in the area of natural gas regulation. It is not possible to predict whether new legislation to regulate natural gas might be proposed, what proposals, if any, might actually be enacted by Congress or the various state legislatures, and what effect, if any, the proposals might have on the operations of our properties. Sales of condensate and NGLs are not currently regulated and are made at market prices.

State Regulation

There are various states which regulate the drilling for, and the production, gathering and sale of, oil and natural gas, including imposing severance taxes and requirements for obtaining drilling permits. For example, Texas currently imposes a 4.6% severance tax on oil production and a 7.5% severance tax on natural gas production. States also regulate the method of developing new fields, the spacing and operation of wells and the prevention of waste of natural gas resources. States may regulate rates of production and may establish maximum daily production allowables from natural gas wells based on market demand or resource conservation, or both. States do not regulate wellhead prices or engage in other similar direct economic regulation, but there can be no assurance that they will not do so in the future. The effect of these regulations may be to limit the amount of natural gas that may be produced from Compass’ wells and to limit the number of wells or locations it can drill.

The petroleum industry is also subject to compliance with various other federal, state and local regulations and laws. Some of those laws relate to resource conservation and equal employment opportunity.

Employees

As of September 30, 2015, Compass had 148 employees. As of the date of this report, none of Compass' employees were represented by labor unions or covered by any collective bargaining agreements. Compass believes that its overall relationship with its employees is good.

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Glossary of selected oil and natural gas terms
The following are abbreviations and definitions of terms commonly used in the oil and natural gas industry and this report.
Bbl. One stock tank barrel, or 42 U.S. gallons liquid volume, used in reference to oil, NGLs or other liquid hydrocarbons.
Bcfe. One billion cubic feet equivalent calculated by converting one Bbl of oil or NGLs to six Mcf of natural gas. This ratio of Bbl to Mcf is commonly used in the oil and natural gas industry and represents the approximate energy equivalent of natural gas to oil or NGLs, and does not represent the sales price equivalent of natural gas to oil or NGLs. Currently the sales price of a Bbl or NGL is significantly higher than the sales price of six Mcf of natural gas.
Boe. A barrel of oil equivalent and is a standard convention used to express oil and gas volumes on a comparable oil equivalent basis. Gas equivalents are determined under the relative energy content method by using the ratio of 6.0 Mcf of gas to 1.0 Bbl of oil or natural gas liquid.
Completion. The installation of permanent equipment for the production of oil or natural gas, or, in the case of a dry hole, the reporting to the appropriate authority that the well has been abandoned.
Delineation. The process of placing a number of wells in various parts of a reservoir to determine its boundaries and production characteristics.
Developed acreage. The number of acres which are allocated or assignable to producing wells or wells capable of production.
Development project. A development project is the means by which petroleum resources are brought to the status of economically producible. As examples, the development of a single reservoir or field, an incremental development in a producing field or the integrated development of a group of several fields and associated facilities with a common ownership may constitute a development project.
Development well. A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.
Differential. An adjustment to the price of oil or natural gas from an established spot market price to reflect differences in the quality and/or location of oil or natural gas.
Exploitation. The continuing development of a known producing formation in a previously discovered field. To maximize the ultimate recovery of oil or natural gas from the field by development wells, secondary recovery equipment or other suitable processes and technology.
EUR. Estimated ultimate recovery is the sum of reserves remaining as of a given date and cumulative production as of that date.
Field. An area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area, although it may refer to both the surface and the underground productive formations.
Formation. A succession of sedimentary beds that were deposited under the same general geologic conditions.
Fracture stimulation. A stimulation treatment routinely performed involving the injection of water, sand and chemicals under pressure to stimulate hydrocarbon production in low-permeability reservoirs.
Full cost pool. The full cost pool consists of all costs associated with property acquisition, exploration, and development activities for a company using the full cost method of accounting. Additionally, any internal costs that can be directly identified with acquisition, exploration and development activities are included. Any costs related to production, general corporate overhead or similar activities are not included.
Gross acres or gross wells. The total acres or wells, as the case may be, in which a working interest is owned.
Held-by-production. A provision in an oil, natural gas and mineral lease that perpetuates a company’s right to operate a property or concession as long as the property or concession produces a minimum paying quantity of oil or natural gas.
MBbl. One thousand stock tank barrels.
Mcf. One thousand cubic feet of natural gas.
Mcfe. One thousand cubic feet equivalent calculated by converting one Bbl of oil or NGLs to six Mcf of natural gas.
Mmbtu. One million British thermal units.

Mmcf. One million cubic feet of natural gas.
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Mmmbtu. One billion British thermal units.
Net acres or net wells. Exists when the sum of fractional ownership interests owned in gross acres or gross wells equals one.
NYMEX. New York Mercantile Exchange.

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NGLs. The combination of ethane, propane, butane and natural gasolines that when removed from natural gas become liquid under various levels of higher pressure and lower temperature.

Present value of estimated future net revenues or PV-10. The present value of estimated future net revenues is an estimate of future net revenues from a property at the date indicated, without giving effect to derivative financial instrument activities, after deducting production and ad valorem taxes, future capital costs, abandonment costs and operating expenses, but before deducting future income taxes. The future net revenues have been discounted at an annual rate of 10% to determine their "present value." The present value is shown to indicate the effect of time on the value of the net revenue stream and should not be construed as being the fair market value of the properties. Estimates have been made using constant oil and natural gas prices and operating and capital costs at the date indicated, at its acquisition date, or as otherwise indicated.

Productive well. A productive well is a well that is not a dry well.

Prospect. A specific geographic area which, based on supporting geological, geophysical or other data and also preliminary economic analysis using reasonably anticipated prices and costs, is deemed to have potential for the discovery of commercial hydrocarbons.

Proved developed reserves. These reserves are reserves of any category that can be expected to be recovered: (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Proved reserves. Those quantities of oil and natural gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible, from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations, prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

The area of the reservoir considered as proved includes: (i) the area identified by drilling and limited by fluid contacts, if any, and (ii) adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons (LKH) as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty. Where direct observation from well penetrations has defined a highest known oil (HKO) elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when: (i) successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (ii) the project has been approved for development by all necessary parties and entities, including governmental entities.

Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Proved undeveloped reserves. Reserves of any category that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances. Undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time.

Under no circumstances shall estimates for undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir or by other evidence using reliable technology establishing reasonable certainty.

Realized price. The cash market price less all expected quality, transportation and demand adjustments.

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Recompletion. An operation within an existing well bore to make the well produce oil and/or natural gas from a different, separately producible zone other than the zone from which the well had been producing.
Reasonable certainty. If deterministic methods are used to classify a reserve as proved, reasonable certainty means a high degree of confidence that the quantities will be recovered. If probabilistic methods are used, there should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate. A high degree of confidence exists if the quantity is much more likely to be achieved than not, and, as changes due to increased availability of geoscience (geological, geophysical, and geochemical), engineering, and economic data are made to EUR with time, reasonably certain EUR is much more likely to increase or remain constant than to decrease.
Reservoir. A porous and permeable underground formation containing a natural accumulation of producible oil or natural gas that is confined by impermeable rock or water barriers and is individual and separate from other reservoirs.
Resources. All quantities of petroleum naturally occurring on or within the earth's crust, discovered and undiscovered (recoverable and unrecoverable), plus those quantities already produced. It also includes all types of petroleum whether currently considered "conventional" or "unconventional."
Shut-in well. A producing well that has been closed down temporarily for, among other things, economics, cleaning out, building up pressure, lack of a market or lack of equipment.
Spacing. The distance between wells producing from the same reservoir. Spacing is often expressed in terms of acres, e.g., 40-acre spacing, and is often established by regulatory agencies.
Spot market Price. The cash market price without reduction for expected quality, transportation and demand adjustments.
Spud. To start the well drilling process.
Standardized Measure of discounted future net cash flows or the Standardized Measure. Under the Standardized Measure, future cash flows are estimated by applying the simple average of the spot prices for the trailing twelve month period using the first day of each month beginning on January 1 and ending on December 1 of each respective year, adjusted for price differentials, to the estimated future production of year-end Proved Reserves. Future cash inflows are reduced by estimated future production and development costs based on period-end and future plugging and abandonment costs to determine pre-tax cash inflows. Future income taxes are computed by applying the statutory tax rate to the excess of pre-tax cash inflows over our tax basis in the associated properties. Future net cash inflows after income taxes are discounted using a 10% annual discount rate to arrive at the Standardized Measure.
Undeveloped acreage. Leased acreage on which wells have not been drilled or completed to a point that would permit the production of economic quantities of oil or natural gas regardless of whether such acreage contains Proved Reserves.
Working interest. The operating interest that gives the owner the right to drill, produce and conduct activities on the property and a share of production.
Workovers. Operations on a producing well to restore or increase production.
WTI. A light, sweet blend of oil produced from fields in western Texas.

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Item 1A. Risk Factors

The following risk factors and the forward-looking statements elsewhere herein should be read carefully in connection with evaluating the business of the Company and its subsidiaries. These risks and uncertainties could cause actual results and events to differ materially from those anticipated. Many of the risk factors described under one heading below may apply to more than one section in which we have grouped them for the purpose of this presentation. As a result, you should consider all of the following factors, together which all of the other information presented herein, in evaluating the business of the Company and its subsidiaries. These risk factors may be amended, supplemented or superseded from time to time in filings and reports that we file with the SEC in the future.

Risks Related to HRG

We are a holding company and our only material assets are our equity interests in our operating subsidiaries and our other investments; as a result, our principal source of revenue and cash flow is distributions from our subsidiaries; our subsidiaries may be limited by law and by contract in making distributions to us.

As a holding company, our only material assets are our cash on hand, the equity interests in our subsidiaries and other investments. As of September 30, 2015, excluding cash, cash equivalents and investments held by our subsidiaries, we had approximately $331.3 million in cash, cash equivalents and investments, which includes $33.2 million held by our wholly-owned subsidiary, HGI Funding. Our principal source of revenue and cash flow is distributions from our subsidiaries. Thus, our ability to service our debt, finance acquisitions and pay dividends to our stockholders in the future is dependent on the ability of our subsidiaries to generate sufficient net income and cash flows to make upstream cash distributions to us. Our subsidiaries are and will continue to be separate legal entities, and although they may be wholly-owned or controlled by us, they have no obligation to make any funds available to us, whether in the form of loans, dividends, distributions or otherwise. The boards of directors of our subsidiaries may consider a range of factors and consider their stockholders' constituencies (including public stockholders) as a whole when making decisions about dividends or other payments. The ability of our subsidiaries to distribute cash to us will also be subject to, among other things, restrictions that are contained in our subsidiaries' financing agreements, availability of sufficient funds in such subsidiaries and applicable state laws and regulatory restrictions. Claims of creditors of our subsidiaries generally will have priority as to the assets of such subsidiaries over our claims and claims of our creditors and stockholders. To the extent the ability of our subsidiaries to distribute dividends or other payments to us could be limited in any way, our liquidity and ability to grow, pursue business opportunities or make acquisitions that could be beneficial to our businesses, or otherwise fund and conduct our business could be materially limited.

As an example, our subsidiary Spectrum Brands is a holding company with limited business operations of its own and its main assets are the capital stock of its subsidiaries, principally SBI. The terms of Spectrum Brands' indebtedness may limit its ability to pay dividends to Spectrum Brands and to us. See Part I, Item IA."Risk Factors-Risks Related to Spectrum Brands' Business-SBI's substantial indebtedness may limit its financial and operating flexibility, and it may incur additional debt, which could increase the risks associated with its substantial indebtedness" and Part I, Item IA."Risk Factors-Risks Related to Spectrum Brands' Business- Restrictive covenants in the SBI Senior Secured Facilities and the SBI Indentures may restrict SBI's ability to pursue its business strategies."

Our subsidiary, FGL, is also a holding company with limited business operations of its own. Its main assets are the capital stock of its subsidiaries, which are principally regulated insurance companies, whose ability to pay dividends is limited by applicable insurance laws. Accordingly, FGL's payment of dividends is dependent, to a significant extent, on the generation of cash flow by its subsidiaries and their ability to make such cash available to FGL, by dividend or otherwise. FGL's subsidiaries may not be able to, or may not be permitted to, make distributions to enable FGL to meet its obligations and pay dividends. Each subsidiary is a distinct legal entity and legal and contractual restrictions may also limit FGL's ability to obtain cash from its subsidiaries. See Part I, Item 1."Business-Our Operating Subsidiaries-FGL-Regulation-Financial Regulation-Dividend and Other Distribution Payment Limitations" in this report. See Part I, Item 1A."Risk Factors-Risks Related to FGL's and Front Street's Businesses-The agreements and instruments governing FGL's indebtedness contain significant operating and financial restrictions, which may prevent FGL from capitalizing on business opportunities." As discussed elsewhere herein, while the agreements governing the FGL Merger permit FGL to pay a regular quarterly cash dividend on its Common Stock in an amount not in excess of $0.065 per share, per quarter, FGL may not pay any other dividends without the consent of Anbang. In addition, if the

FGL Merger is consummated, while we will receive the proceeds from the sale of our shares of FGL common stock, we will no longer receive dividends from FGL.

Additionally, the terms of Compass' indebtedness and recent declines in oil and gas prices may adversely affect its cash flow and may limit its ability to pay distributions to us. Compass may also require additional equity infusions or other support. In November 2015, HGI Funding provided a limited guaranty with respect to a portion of Compass' indebtedness. See Part I, Item 1A."Risk Factors-Risks Related to Compass-Compass has a substantial amount of indebtedness, which may adversely affect its cash flow and ability to operate its business, remain in compliance with debt covenants and make payments on its debt and distributions to us."

In addition, our liquidity and ability to pursue business opportunities may be impacted by the capital needs of our subsidiaries. Such entities may require additional capital to maintain or grow their businesses, make payments on their indebtedness or other commitments, and/or make upstream cash distributions. For example, given the recent declines in oil and gas prices, Compass may require capital contributions if current period earnings and cash on hand at Compass are not sufficient to reduce debt levels and remain compliant with applicable covenants in Compass' financing agreement. As another example, Front Street will require additional capital in order to engage in reinsurance transactions, and may require additional capital to meet regulatory capital requirements.

Furthermore, these restrictions on our subsidiaries ability to pay dividends or distributions may limit our ability to incur additional indebtedness or refinance our existing indebtedness in the future as well. Our ability to refinance our indebtedness will depend on our ability to generate future cash flow, and we are dependent on our subsidiaries' ability to pay dividends or pay distributions to us in order for us to generate cash flow.

We and our subsidiaries may determine not to or may not be successful in identifying, consummating and integrating any additional suitable acquisition, disposition or other business opportunities.

We and/or one or more of our subsidiaries may determine not to pursue additional acquisitions, dispositions or other business opportunities and/or, if we or our subsidiaries determine to pursue such opportunities, we may not be successful in identifying and consummating suitable acquisitions, dispositions or other business opportunities at favorable valuations and other terms. Furthermore, attractive business opportunities may be limited or prohibited by applicable regulatory regimes. Any future acquisition, disposition or business opportunity may also require a substantial amount of our or our subsidiaries' management's time and may be difficult to successfully execute, and in the case of acquisitions, integrate, which could adversely affect our or our subsidiaries' management's ability to identify and consummate other acquisitions, dispositions or business opportunities. Any such failure could have a material adverse effect on our or our subsidiaries' results of operations and financial condition and our or our subsidiaries' ability to service our debt.

Even if we or our subsidiaries do execute our acquisitions, dispositions and/or other business opportunities, there is no assurance that we or our subsidiaries will be successful in enhancing our or our subsidiaries' business or financial condition or that such transaction will be successful.

We are dependent on certain key personnel.

We are dependent upon the skills, experience and efforts of, our President and Chief Executive Officer, Omar M. Asali and David M. Maura, our Executive Vice President of Investments. As a result of their positions with our Company, Mr. Asali and Mr. Maura have significant influence over our business strategy and make most of the significant policy and managerial decisions of our Company. The loss of Mr. Asali or Mr. Maura or other key personnel, or limitations on their involvement in our business, could have a material adverse effect on our and our subsidiaries' business or operating results.

We and our subsidiaries may not be able to attract and retain skilled people.

Our success and our subsidiaries' success depend, in large part, on our and their ability to attract new personnel, retain and motivate our and their existing employees, and continue to compensate such personnel competitively. Competition for the best personnel in most activities in which we and our subsidiaries engage can be intense, and we may not be able to hire these people or to retain them. Additionally, our subsidiaries are both highly dependent on the continuing efforts of their senior management teams and other key personnel. Our subsidiaries' business, financial condition and results of operations could be materially adversely affected if they lose any of these persons and are unable to attract and retain qualified replacements.

Because we face significant competition for acquisition and business opportunities, including from numerous companies with a business plan similar to ours, it may be difficult for us to fully execute our business strategy. Additionally, our subsidiaries also operate in highly-competitive industries, limiting their ability to gain or maintain their positions in their respective industries.

We expect to encounter intense competition for acquisition and business opportunities from both strategic investors and other entities having a business objective similar to ours, such as private investors (which may be individuals or investment partnerships), blank check companies, and other entities, domestic and international, competing for the type of businesses that we may intend to acquire. Many of these competitors possess greater technical, human and

other resources, or more local industry knowledge, or greater access to capital, than we do and our financial resources will be relatively limited when contrasted with those of many of these competitors. These factors may place us at a competitive disadvantage in successfully completing future acquisitions and investments.
In addition, while we believe that there are numerous target businesses that we could potentially acquire or invest in, our ability to compete with respect to the acquisition of certain target businesses that are sizable will be limited by our available financial resources. We may need to obtain additional financing in order to consummate future acquisitions and investment opportunities. We cannot assure you that any additional financing will be available to us on acceptable terms, if at all. This inherent competitive limitation gives others an advantage in pursuing acquisition and investment opportunities.

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Furthermore, our subsidiaries also face competition from both traditional and new market entrants that may adversely affect them as well. See risk factors related to Spectrum, FGL and Compass herein. Additionally, the Asset Managers' markets are highly-competitive and are characterized by competitive factors that vary based upon product and geographic region. The Asset Managers have a wide variety of competitors for skilled personnel that include captive and independent finance companies, commercial banks and thrift institutions, industrial banks, community banks, leasing companies, hedge funds, insurance companies, mortgage companies, investment companies, including business development companies, manufacturers and vendors. The Asset Managers compete, amongst other things, on the basis of pricing, terms and structure. If the Asset Managers are unable to match their respective competitors' terms, they could lose market share. Should the Asset Managers match their respective competitors' terms, it is possible that they could experience lower returns and/or increased losses. The Asset Managers also may be unable to match competitors' terms as a result of their respective current or future financial condition.

Future acquisitions or dispositions or other business opportunities could involve unknown risks that could harm our business and adversely affect our financial condition.

We have in the past, and may in the future, make acquisitions or dispositions or pursue other business activities, directly or indirectly through our subsidiaries, that involve a number of risks. In the case of acquisitions, those risks may relate to the particular industry in which the business or acquisition targets operate, including risks in industries with which we are not familiar or experienced with, risks that are unknown to us and the financial, legal and operational risks related to such acquisition. In the case of disposition, those risks may relate to employment matters, counterparties, regulators and other stakeholders in the disposed business, risks unknown to us and risks related to the management of our business and the financial, legal and operational risks related to such disposition. Any such risks may result in one or more costly disputes or litigation. Although we intend to conduct extensive business, financial, operational and legal due diligence in connection with the evaluation any such opportunity, there can be no assurance our due diligence investigations will identify every matter that could have a material adverse effect on us. The realization of any such risks could expose us to unanticipated costs and liabilities and prevent or limit us from realizing the projected benefits of such acquisition, disposition or other business activity, which could adversely affect our financial condition and liquidity and our ability to service our debt.

We could consume resources in pursuing acquisitions, business opportunities, dispositions, financings or capital market transactions that are not consummated, which could materially adversely affect subsequent attempts to locate and acquire or invest in another business.

We anticipate that the investigation of each specific acquisition, disposition, financing or capital market transaction, and the negotiation, drafting, and execution of relevant agreements, disclosure documents, and other instruments, with respect to such transaction, will require substantial management time and attention and substantial costs for financial advisors, accountants, attorneys and other advisors. If a decision is made not to consummate a specific transaction, the costs incurred up to that point for the proposed transaction likely would not be recoverable. Furthermore, even if an agreement is reached relating to a specific transaction, we may fail to consummate the transaction for any number of reasons, including those beyond our control. Any such event could consume significant management time and result in a loss to us of the related costs incurred, which could adversely affect our financial position and our ability to consummate other transactions.

Covenants in certain of our material instruments limit, and other future instruments may limit our ability to operate our business.

The indenture governing our 7.875% Notes (the "7.875% Notes Indenture"), and the indenture governing our 7.750% Notes (the "7.750% Notes Indenture" and, collectively with the 7.875% Notes Indenture, the "Indentures") contain, and any of our other future financing agreements may contain, covenants imposing operating and financial restrictions on our business. The Indentures require us to satisfy certain financial tests, including minimum liquidity and collateral coverage ratios. If we fail to meet or satisfy any of these covenants (after applicable cure periods), we would be in default and noteholders (through the trustee or collateral agent, as applicable) could elect to declare all amounts outstanding to be immediately due and payable, enforce their interests in the collateral pledged and restrict our ability to make additional borrowings. These agreements may also contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under the other agreements could also declare a default. The covenants and restrictions in the Indentures, subject to specified exceptions, restrict our, and in certain cases, our subsidiaries' ability to, among other things:

- incur additional indebtedness;
- create liens or engage in sale and leaseback transactions;
- pay dividends or make distributions in respect of capital stock;
- make certain restricted payments;
- sell assets;
- engage in transactions with affiliates, except on an arms-length basis; or
- consolidate or merge with, or sell substantially all of our assets to, another person.

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The Certificate of Designation provides one holder of our Series A Participating Convertible Preferred Stock with consent and voting rights with respect to certain of the matters referred to above and certain corporate governance rights.

These restrictions may interfere with our ability to obtain financings or to engage in other business activities, which could have a material adverse effect on our business, financial condition, liquidity and results of operations. Moreover, a default under one of our subsidiaries' financing agreements may cause a default on our debt and our other financing arrangements.

Finally, Spectrum Brands' and FGL's stock are, directly or indirectly, pledged as collateral under our 7.875% Notes, and foreclosure on a sufficient number of Spectrum Brands stock or FGL stock pledged as collateral would constitute a change of control under certain of SBI's debt documents or FGL's debt documents, as applicable. Upon a change of control under those debt documents, SBI or FGL, as applicable, is required to offer to repurchase their notes at a price equal to 101% of the principal amount of their notes, plus accrued interest. In the event holders of the SBI Notes (as defined below) or FGH Notes exercise remedies in connection with a default, their claims to SBI's or FGH's assets, respectively, would have priority over the holders of our 7.875% Notes.

Financing covenants could adversely affect our financial health and prevent us from fulfilling our obligations.

We have a significant amount of indebtedness. As of September 30, 2015, our total outstanding indebtedness was $1.8 billion. As of September 30, 2015, the total liabilities of Spectrum Brands were approximately $5.7 billion, including trade payables. As of September 30, 2015, the total liabilities of FGL were approximately $23.4 billion, including approximately $17.8 billion in annuity contractholder funds, approximately $3.5 billion in future policy benefits and approximately $300.0 million of indebtedness under the FGL Notes. As of September 30, 2015, the total liabilities of HAMCO were approximately $1.4 million and were approximately $379.4 million when consolidated with Salus, EIC and CorAmerica. As of September 30, 2015, the total liabilities of HGI Energy (including the debt at Compass) were $501.9 million. Our and our subsidiaries' significant indebtedness and other financing arrangements could have material consequences. For example, they could:

- make it difficult for us to satisfy our obligations with respect to our outstanding and other future debt obligations;
- increase our vulnerability to general adverse economic and industry conditions or a downturn in our business;
- impair our ability to obtain additional financing in the future for working capital, investments, acquisitions and other general corporate purposes;
- require us to dedicate a substantial portion of our cash flows to the payment to our financing sources, thereby reducing the availability of our cash flows to fund working capital, investments, acquisitions and other general corporate purposes; and
- place us at a disadvantage compared to our competitors.

Any of these risks could impact our ability to fund our operations or limit our ability to expand our business, which could have a material adverse effect on our business, financial condition, liquidity and results of operations.

Our ability to make payments on our financial obligations may depend upon the future performance of our operating subsidiaries and their ability to generate cash flow in the future, which are subject to general economic, industry, financial, competitive, legislative, regulatory, and other factors that are beyond our control. We cannot assure you that we will generate sufficient cash flow from our operating subsidiaries, or that future borrowings will be available to us, in an amount sufficient to enable us to pay our financial obligations or to fund our other liquidity needs. If the cash flow from our operating subsidiaries is insufficient, we may take actions, such as delaying or reducing investments or acquisitions, attempting to restructure or refinance our financial obligations prior to maturity, selling assets or operations or seeking additional equity capital to supplement cash flow. However, we may be unable to take any of these actions on commercially reasonable terms, or at all.

Future financing activities may adversely affect our leverage and financial condition.

Subject to the limitations set forth in the Indentures, we and our subsidiaries may incur additional indebtedness and issue dividend-bearing redeemable equity interests. We expect to incur substantial additional financial obligations to enable us to consummate future acquisitions and investment opportunities. These obligations could result in:

- default and foreclosure on our assets if our operating revenues after an investment or acquisition are insufficient to repay our financial obligations;

- acceleration of our obligations to repay the financial obligations even if we make all required payments when due if we breach certain covenants that require the maintenance of certain financial ratios or reserves without a waiver or renegotiation of that covenant;
- our immediate payment of all amounts owed, if any, if such financial obligations are payable on demand;
- our inability to obtain necessary additional financing if such financial obligations contain covenants restricting our ability to obtain such financing while the financial obligations remain outstanding;
- our inability to pay dividends on our capital stock;

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- using a substantial portion of our cash flow to pay principal and interest or dividends on our financial obligations, which will reduce the funds available for dividends on our Common Stock if declared, expenses, capital expenditures, acquisitions and other general corporate purposes;
- limitations on our flexibility in planning for and reacting to changes in our business and in the industries in which we operate;
- an event of default that triggers a cross default with respect to other financial obligations, including our notes;
- increased vulnerability to adverse changes in general economic, industry, financial, competitive legislative, regulatory and other conditions and adverse changes in government regulation; and
- limitations on our ability to borrow additional amounts for expenses, capital expenditures, acquisitions, debt service requirements, execution of our strategy and other purposes and other disadvantages compared to our competitors.

We and our subsidiaries rely extensively on our information technology (IT) systems, networks and services, including Internet sites, data hosting and processing facilities and tools and other hardware, software and technical applications and platforms, some of which are managed, hosted, provided and/or used by third-parties or vendors, to assist in conducting our and our subsidiaries' businesses.

Our and our subsidiaries IT systems have been, and will likely continue to be, subject to computer viruses or other malicious codes, unauthorized access attempts, phishing and other cyber-attacks. We and our subsidiaries continue to assess potential threats and make investments seeking to address these threats, including monitoring of networks and systems and upgrading skills, employee training and security policies for us and our subsidiaries, and our respective third-party providers. However, because the techniques used in these attacks change frequently and may be difficult to detect for periods of time, we or our subsidiaries may face difficulties in anticipating and implementing adequate preventative measures. To date, we and our subsidiaries have not experienced a material impact on our businesses or operations from these attacks; however, there can be no guarantee that our security efforts will prevent breaches or breakdowns to ours, our subsidiaries' or our third-party providers' databases or systems. If the IT systems, networks or service providers we and our subsidiaries rely upon fails to function properly, or if we, our subsidiaries or one of our third-party providers suffer a loss, significant unavailability of or disclosure of our business or stakeholder information, and our and our subsidiaries' businesses continuity plans do not effectively address these failures on a timely basis, we and/or our subsidiaries may be exposed to reputational, competitive and business harm as well as litigation and regulatory action. The costs and operational consequences of responding to breaches and implementing remediation measures could be significant.

We have made and may continue to make significant investments in publicly traded companies. Changes in the market prices of the securities we own, particularly during times of volatility in security prices, can have a material impact on the value of our company portfolio.

We have made and may continue to make significant investments in publicly traded companies, both as long-term acquisition targets and, to a limited extent, as shorter-term investments. We will either consolidate our investments and subsidiaries or report such investments under the equity method of accounting. Changes in the market prices of the publicly traded securities of these entities could have a material impact on an investor's perception of the aggregate value of our Common Stock and on the value of the assets we can pledge to creditors for debt financing, which in turn could adversely affect our ability to incur additional debt or finance future acquisitions.

We have incurred substantial costs in connection with our prior acquisitions and dispositions and expect to incur substantial costs in connection with any other transaction we complete in the future which will reduce the amount of our available cash and could adversely affect our financial results and liquidity.

We have incurred substantial costs in connection with our prior acquisitions and dispositions expect to incur substantial costs in connection with any other transaction we complete in the future. These costs will reduce the amount of cash otherwise available to us and our and our subsidiaries' ability to carry out our respective business plans. There is no assurance that the actual costs will not exceed our estimates. We may continue to incur additional material charges reflecting additional costs associated with our investments and the integration of our acquisitions in fiscal quarters subsequent to the quarter in which the relevant acquisition was consummated.

Certain of our stockholders hold a significant portion of our outstanding voting stock; decisions by such stockholders, including the decision to sell their HRG securities, could adversely affect our financial results and liquidity.

Leucadia National Corporation (“Leucadia”), CF Turul LLC, an affiliate of funds managed by Fortress Investment Group LLC or its affiliates (“CF Turul”) and funds affiliated with Harbinger Capital Partners LLC (“HCP”), beneficially own a significant portion of our outstanding Common Stock. Because of this, such persons may exercise significant influence over our business and affairs, including over matters submitted to a vote of our stockholders, such as the election of directors, the removal of directors, and approval of significant corporate transactions. This influence and actual control may have the effect of discouraging offers to acquire HRG because any such transaction would likely require the consent of Leucadia and CF Turul. See also Part I,

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Item 1A."Risk Factors- Provisions in our organizational documents and applicable regulations may discourage the takeover of our company, may make removal of our management more difficult and may depress our stock price." Matters not directly related to us can nevertheless affect Leucadia's, CF Turul's and HCP's respective decisions to maintain, decrease or increase their investments in us. Leucadia, CF Turul and HCP may at any time decide to dispose of all or a portion of their investment in us. The sale or other disposition of a certain portion of our voting stock could cause the Company and its subsidiaries to experience a change of control, which may accelerate certain of the Company's and its subsidiaries' equity awards and other obligations and/or allow certain counterparties to terminate their agreements. Among other things, such a change of control could result in a "change of control" under the Indentures, requiring us to offer to repurchase our 7.875% Notes or our 7.750% Notes or to redeem our preferred stock from the holders thereof. No assurance can be provided that upon the occurrence of such an event, the Company will be able to obtain the required waivers, repay its indebtedness or secure alternative arrangements. See also Part I, Item IA.Risk Factors-Future sales of substantial amounts of our Common Stock may adversely affect our market price."

Our officers, directors, stockholders and their respective affiliates may have a pecuniary interest in certain transactions in which we are involved, and may also compete with us.

We have not adopted a policy that expressly prohibits our directors, officers, stockholders or affiliates from having a direct or indirect pecuniary interest in any investment to be acquired or disposed of by us or in any transaction to which we are a party or have an interest, nor do we have a policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us. We have engaged in transactions in which such persons have an interest and, subject to the terms of the Indentures and other applicable covenants in other financing arrangements or other agreements, may in the future enter into additional transactions in which such persons have an interest. In addition, such parties may have an interest in certain transactions such as strategic partnerships or joint ventures in which we are involved, and may also compete with us.

In the course of their other business activities, certain conflicts of interest may arise with respect to HRG, its subsidiaries, investees and their respective directors, officers and affiliates.

Certain of our and our subsidiaries' and investee's officers and directors may become aware of business opportunities which may be appropriate for presentation to us as well as the other entities with which they are or may be affiliated. Due to those officers' and directors' existing affiliations with other entities, they may have obligations to present potential business opportunities to those entities, which could cause additional conflicts of interest. Accordingly, such persons may not present otherwise attractive business combination opportunities to us, our subsidiaries or investees. In addition, HRG currently has a number of, and may in the future acquire, additional subsidiaries and investees ("HRG Entities"), some of which engage in business dealings with each other and HRG from time to time. As a result, conflicts of interest could arise with respect to transactions involving business dealings between HRG and the HRG Entities or between and among the HRG Entities, including potential business transactions and potential acquisitions of businesses or properties. It may not be possible to equally favor each of the HRG Entities in these business dealings, and the resolution of these conflicts may not always be equally in the best interest of all HRG Entities, which could have a material effect on HRG's and one or more HRG Entities' financial condition and results of operations.

Future acquisitions or dispositions may not require a stockholder vote and may be material to us.

Any future acquisitions could be material in size and scope, and our stockholders and potential investors may have virtually no substantive information about any new business upon which to base a decision whether to invest in our Common Stock. In any event, depending upon the size and structure of any acquisitions, stockholders are generally expected to not have the opportunity to vote on the transaction, and may not have access to any information about any new business until the transaction is completed and we file a report with the Commission disclosing the nature of such transaction and/or business. Similarly, we may effect material dispositions in the future and stockholders are generally not expected to the opportunity to vote on these transactions. Even if a stockholder vote is required for any future transactions, our amended and restated certificate of incorporation and our restated bylaws allow for our stockholders to approve such transactions by written consent, which may result in only our large stockholders having an opportunity to vote on such transactions.

Provisions in our organizational documents and applicable regulations may discourage the takeover of our company, may make removal of our management more difficult and may depress our stock price.

Our organizational documents contain provisions that may have an anti-takeover effect and inhibit a change in our management. They could also have the effect of discouraging others from making tender offers for our Common Stock. As a result, these provisions could prevent our stockholders from receiving a premium for their shares of Common Stock above the prevailing market prices. These provisions include:

- the authority of the Company’s Board of Directors (the “Board”) to issue, without stockholder approval, up to 10,000,000 shares of our preferred stock with such terms as our Board may determine;
- special meetings of our stockholders may be called only by the Chairman of our Board or by our Corporate Secretary

upon delivery of a written request executed by three directors (or, if there are fewer than three directors in office at that time, by all incumbent directors);

- a staggered Board, as a result of which only one of the three classes of directors is elected each year;
- advance notice requirements for nominations for election to our Board, or for proposing matters that can be acted on by stockholders at stockholder meetings;
- the absence of cumulative voting rights;
- subject to any special rights of the holders of our preferred stock may have to elect directors, removal of incumbent directors only for cause.

Our amended and restated certificate of incorporation contains provisions that restrict mergers and other business combinations with an “Interested Stockholder” (as defined therein) or that may otherwise have the effect of preventing or delaying a change of control of our company. Our Board has waived the application of this provision to Leucadia and CF Turul. In addition, in our amended and restated certificate of incorporation, the term “Interested Stockholder” excludes Harbinger Holdings, LLC (“Harbinger Holdings”) and any affiliates, including HCP and any other entity controlled or managed, directly or indirectly, by Philip A. Falcone. Also see Part I, Item IA. “Risk Factors-HRG and certain of its subsidiaries, including Spectrum Brands and FGL, may not be able to fully utilize their net operating loss and other tax carryforwards” for the restrictions on certain transfer our Common Stock.

Under most states’ statutes, including those of Iowa and New York, acquiring 10% or more of the voting stock of an insurance company or its parent company is presumptively considered a change of control, although such presumption may be rebutted. Accordingly, any person who acquires 10% or more of the voting securities of HRG, FGL, FGH, FGL Insurance or FGL NY Insurance without the prior approval of the insurance regulators of Iowa and New York will be in violation of those states’ laws and may be subject to injunctive action requiring the disposition or seizure of those securities by the relevant insurance regulator, prohibiting the voting of those securities and/or other actions determined by the relevant insurance regulator. Any such investors will need to obtain approval to divest of their controlling interest, except for Leucadia, CF Turul and HCP, each of whom has obtained the necessary regulatory approval.

Our restated bylaws provide that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our restated bylaws provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty, any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our amended and restated certificate of incorporation or our restated bylaws, any action to interpret, apply, enforce, or determine the validity of our amended and restated certificate of incorporation or restated bylaws, or any action asserting a claim against us that is governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in our restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our business and financial condition.

The nature of certain of our assets is volatile and their value may fluctuate or change over short periods of time.

We are a holding company and as such, hold, directly or indirectly, various securities and debt instruments. Investments in such securities and debt instruments involves significant risk, including the risk of partial or total loss of the value of such investments, particularly in light of uncertain domestic and global political, credit and financial market conditions. Any such loss may have a material adverse effect on our and our subsidiaries’ liquidity and results of operations, and can adversely affect our and our subsidiaries’ ability to service our debt and carry out our business strategy.

In addition, some of our subsidiaries are privately-held companies and some of our assets are illiquid securities, the fair values of which are not readily determinable. We value these securities for various purposes based on a number of factors, including, without limitation, third-party independent valuations. Because valuations, and particularly valuations of private and illiquid securities, are inherently uncertain, such valuations may fluctuate significantly over time and may differ materially from the values that would have been obtained if an active market existed for these securities.

Disruption or failures of our or our subsidiaries' information technology systems could have a material adverse effect on our business.

Our and our subsidiaries' information technology systems are susceptible to security breaches, operational data loss, general disruptions in functionality, and may not be compatible with new technology. We and our subsidiaries depend on information technology systems for the effectiveness of operations and to interface with those with whom we and our subsidiaries conduct business, as well as to maintain financial and other records. Disruption or failures of such information technology systems could impair our or our subsidiaries' ability to effectively and timely conduct our operations and maintain financial records, which could damage our reputation and have a material adverse effect on our business.

Our ability to dispose of securities and debt interests may be limited by restrictive stockholder agreements, by the federal securities laws and by other regulations or market conditions.

When we acquire securities or debt instruments directly or indirectly through subsidiaries, we acquire securities or debt instruments that are illiquid and, when we acquire less than 100% of the equity interests of a company, we may be subject to restrictive terms of agreements with other equityholders. In addition, we may hold, and may in the future hold, securities and debt instruments that are not registered under the Securities Act and/or (as is the case with respect to our shares of Spectrum Brands and FGL) restricted securities under the Securities Act. Our ability to sell such securities and debt instruments could be limited by market conditions and the illiquid nature of such securities and debt instruments and could be limited to sales pursuant to: (i) an effective registration statement under the Securities Act covering the resale of those securities; (ii) Rule 144 under the Securities Act, which, among other things, requires a specified holding period and limits the manner and volume of sales; (iii) another applicable exemption under the Securities Act; or (iv) approval of certain regulators. We hold, and may in the future hold, large amounts of the securities or debt instruments of a particular issuer, which may limit our ability to sell such securities or debt instruments on economically attractive terms or at all. The inability to sell such securities or debt instruments when desired or necessary may have a material adverse effect on our financial condition and liquidity, which could adversely affect our ability to service our debt and our ability to carry out our business strategy.

We may suffer adverse consequences if we are deemed an investment company under the Investment Company Act and we may be required to incur significant costs to avoid investment company status and our activities may be restricted.

We believe that we are not an investment company under the Investment Company Act of 1940 (the "Investment Company Act") and we intend to continue to make acquisitions and other investments in a manner so as not to be an investment company. The Investment Company Act contains substantive legal requirements that regulate the manner in which investment companies are permitted to conduct their business activities. If the Commission or a court were to disagree with us, we could be required to register as an investment company. This would negatively affect our ability to consummate acquisitions; subject us to disclosure and accounting guidance geared toward investment, rather than operating companies; limit our ability to borrow money, issue options, issue multiple classes of stock and debt, and engage in transactions with affiliates; and require us to undertake significant costs and expenses to meet the disclosure and regulatory requirements to which we would be subject as a registered investment company. In order not to be regulated as an investment company under the Investment Company Act, unless we can qualify for an exemption, we must ensure that we are engaged primarily in a business other than investing, reinvesting, owning, holding or trading in securities (as defined in the Investment Company Act) and that we do not own or acquire "investment securities" having a value exceeding 40% of the value of our total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. To ensure that majority-owned investments, such as Spectrum Brands, do not become categorized as "investment securities," we may need to make additional investments in these subsidiaries to offset any dilution of our interest that would otherwise cause such a subsidiary to cease to be majority-owned. We may also need to forego acquisitions that we would otherwise make or retain, or dispose of investments that we might otherwise hold.

Any potential acquisition or investment in a foreign business or a company with significant foreign operations may subject us to additional risks.

Acquisitions or investments by us in a foreign business or other companies with significant foreign operations, such as Spectrum Brands, subjects us to risks inherent in business operations outside of the U.S. These risks include, for example, currency fluctuations, complex foreign regulatory regimes, punitive tariffs, unstable local tax policies, trade embargoes, risks related to shipment of raw materials and finished goods across national borders, restrictions on the movement of funds across national borders and cultural and language differences. If realized, some of these risks may have a material adverse effect on our business, results of operations and liquidity, and can have an adverse effect on our ability to service our debt. For risks related to Spectrum Brands, see Part I, Item IA. "Risk Factors-Risks Related to Spectrum Brands' Business" below.

Our participation in any future joint investment could be adversely affected by our lack of sole decision-making authority, our reliance on a partner's financial condition and disputes between us and our partners.

We may, through one or more series of acquisitions or dispositions, acquire partial ownership interests in businesses or participate in joint ventures with third parties. In such circumstances, we may not be in a position to exercise significant decision-making authority regarding a target business, partnership or other entity if we do not own a substantial majority of the equity interests of the target. These investments may involve risks not present where a third party is not involved, including the possibility that partners might become insolvent or fail to fund their shares of required capital contributions. In addition, partners may have economic or other business interests or goals that are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such partners, some of which may possess more industry or technical knowledge or have better access to capital and other resources, may also seek similar acquisition targets as us and we may be in competition with them for such business combination targets. Disputes between us and partners may result in litigation or arbitration

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that would increase our costs and expenses and divert a substantial amount of our management's time and effort away from our business. Consequently, actions by, or disputes with, partners might result in subjecting assets owned by the partnership to additional risk. We may also, in certain circumstances, be liable for the actions of our third-party partners. For example, in the future, we may agree to guarantee indebtedness incurred by a partnership or other entity. Such a guarantee may be on a joint and several basis with our partner, in which case, we may be liable in the event such partner defaults on its guarantee obligation.

There may be tax consequences associated with our acquisition, investment, holding and disposition of target companies and assets.

We may incur significant taxes in connection with effecting acquisitions or investments, holding, receiving payments from, and operating target companies and assets and disposing of target companies or their assets. Our decisions to make a particular acquisition, sell a particular asset or increase or decrease a particular investment may be based on considerations other than the timing and amount of taxes owed as a result.

HRG and certain of its subsidiaries, including Spectrum Brands and FGL, may not be able to fully utilize their net operating loss and other tax carryforward; restrictions in HRG's certificate of incorporation intended to protect net operating losses and other tax attributes may limit transfer of HRG's securities

As of September 30, 2015, HRG and Spectrum Brands had U.S. Federal net operating loss ("NOL") carryforwards of approximately $815.3 million and $894.5 million, respectively that, if unused, will expire through year 2034. HRG and Spectrum Brands had tax benefits related to U.S. state NOL carryforwards of approximately $109.8 million and $68.7 million, respectively, at September 30, 2015, that, if unused, will expire through year 2034. As of September 30, 2015, HRG had approximately $77.8 million of U.S. Federal capital loss carryforwards that, if unused, will expire through year 2020; and Spectrum Brands had foreign loss carryforwards of approximately $127.6 million, which will expire beginning in Fiscal 2016. As of September 30, 2015, FGL had U.S. Federal NOL carryforwards of approximately $92.2 million that, if unused, will expire in years 2026 through 2035 and had capital loss carryforwards of approximately $216.9 million that, if unused, will expire through year 2019. In addition, any future subsidiary that HRG or its subsidiaries may acquire may also have significant Federal, state, local and foreign NOL carryforwards. Both HRG and Spectrum Brands have established full valuation allowances for these deferred tax assets, and FGL has established a partial valuation allowance, based on their assessments of the amounts of deferred tax assets that are more-likely-than-not realizable.

The ability of HRG and its subsidiaries (including any future subsidiary) to utilize their NOL and other tax carryforwards to reduce taxable income in future years may be limited for various reasons, including if projected future taxable income is insufficient to recognize the full benefit of such NOL carryforwards prior to their expiration. Additionally, the ability of HRG and its subsidiaries (including any future subsidiary) to fully use these tax assets could also be adversely affected if the respective companies were deemed to have an "ownership change" within the meaning of Sections 382 and 383 of the Code. An ownership change is generally defined as a greater than 50% increase in equity ownership by "5% shareholders" (as that term is defined for purposes of Sections 382 and 383 of the Code) in any three-year period. HRG and its subsidiaries (including Spectrum Brands and FGL) have experienced ownership changes that have limited the utilization of a portion of their NOL carryforwards and other carryforward tax attributes. Future ownership changes, including transfers or dispositions of our stock by HCP or other stockholders and conversions or redemptions of our preferred stock, could, depending on their magnitude, result in ownership changes that would trigger the imposition of additional limitations on the utilization of these tax assets under Sections 382 and 383. Accordingly, there can be no assurance that, in the future, HRG and/or its subsidiaries (including any future subsidiary) will not experience additional limitations on utilizing the tax benefits of their NOL and other tax carryforwards. Such limitations could have a material adverse effect on HRG and/or its subsidiaries' results of operations, cash flows or financial condition.

In order to reduce the likelihood that future transactions in our Common Stock will result in an ownership change under Section 382 of the Code ("Section 382"), on July 13, 2015, following receipt of stockholder approval, we filed an amendment to our amended and restated certificate of incorporation (the "Charter"). The Charter amendment is designed to reduce the likelihood of an "ownership change" under U.S. federal tax laws by restricting certain direct and indirect acquisitions and dispositions of our Common Stock. The restrictions imposed under the amendment apply to any direct and indirect holders of, or persons who would become holders of, 4.9% or more of our Common Stock (and certain other interests in the Company that are treated as stock for U.S. federal tax purposes). As of July 13, 2015, which is the date of the adoption of the Charter amendment, any direct or indirect transfer of our shares of Common Stock (or such other Company securities) in violation of the restrictions will be void as of the date of the purported transfer as to the purported transferee, and the purported transferee will not be recognized as the owner of such securities for any purpose, including for purposes of voting and receiving dividends or other distributions. Our Board will have the power to determine and interpret, in its sole discretion, all matters necessary for assessing compliance with the provisions of the Charter transfer restrictions. These matters include (i) the identification of a 4.9% stockholder, (ii) whether a transfer is a prohibited transfer, (iii) the percentage stock ownership interest in the Company of any person for the purposes of Section 382, (iv) whether an instrument constitutes a security of the Company, (v) the amount or fair market value due to a purported transferee pursuant to the alternate procedure described in the Charter, (vi) the interpretation of the provisions of the Charter amendment and (vii) any other matters which our Board determines to be relevant. To the extent permitted by law, the good faith determination of the Board on such matters will be conclusive and binding on all persons and entities for purposes of the Charter transfer restrictions.

In connection with its consideration of the Charter transfer restrictions, the Board has provided to CF Turul, the beneficial owner of 16.4% of our issued and outstanding Common Stock as of November 2, 2015, its approval, as required under the Charter transfer restrictions, to make, subject to specified limitations and other terms and conditions, one or more distributions of our shares of Common Stock on a substantially pro rata basis to the members of CF Turul (and by such members and their affiliates to the ultimate owners who are not entities sponsored or organized by Fortress Investment Group LLC). In addition, the Board has also provided the funds affiliated with HCP, the beneficial owner of approximately 10.3% of our issued and outstanding Common Stock as of November 2, 2015, its approval, as required under the Charter transfer restrictions, to sell, subject to specified limitations and other terms and conditions, the shares of Common Stock currently held by HCP.

While the Charter amendment is intended protect the benefits of our NOLs and other tax assets, there can be no assurance that we will not experience future transactions in our Common Stock that results in some or all of our NOLs attributes being lost or limited. For example, (i) our Board can permit a transfer to an acquirer that results in or contributes to an ownership change if it determines that such transfer is in our or our stockholders' best interests; (ii) a court could find that part or all of the charter transfer restrictions are not enforceable, either in general or as applied to a particular stockholder or fact situation; (iii) certain changes in relationships among our stockholders or other events not proscribed under the Charter amendment could contribute to or cause an ownership change under Section 382; and (iv) an ownership change could be caused or contributed to as a result of our own actions, such as issuing, repurchasing or redeeming shares of our Common Stock, which we remain free to do if our Board determines that it is in our or our stockholders' best interests to do so.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to document and test our internal controls over financial reporting and to report on our assessment as to the effectiveness of these controls. Any delays or difficulty in satisfying these requirements or negative reports concerning our internal controls could adversely affect our future results of operations and financial condition.

We may in the future discover areas of our internal controls that need improvement, particularly with respect to our or our subsidiaries or businesses that we or our subsidiaries may acquire in the future, and newly formed businesses or entities. For instance, Compass has only recently transitioned to a stand-alone independent company with, among other things, its own reporting process and internal controls over financial reporting, and certain of our less significant subsidiaries may become more material to us and may have a greater impact on the effectiveness of our controls if the FGL Merger is consummated. We cannot be certain that we or our subsidiaries (including Compass) will develop, implement, and maintain adequate internal controls over financial reporting in the future.

In addition, we or our subsidiaries may acquire an entity that was not previously subject to U.S. public company requirements or did not previously prepare financial statements in accordance with U.S. GAAP or is not in compliance with the requirements of the Sarbanes-Oxley Act of 2002 or other public company reporting obligations applicable to such entity directly or through us. We or our subsidiaries may incur significant additional costs in order to ensure, that after such acquisition, HRG or our subsidiaries continue to comply with the requirements of the Sarbanes-Oxley Act of 2002 and its other public company requirements, which, in turn, would reduce our earnings and negatively affect our liquidity or cause us to fail to meet our or our subsidiaries reporting obligations. In addition, development of an adequate financial reporting system and the internal controls of any such entity to achieve compliance with the Sarbanes-Oxley Act of 2002 may increase the time and costs necessary to complete any such acquisition or cause us or our subsidiaries to fail to meet our reporting obligations. To the extent any of these newly-acquired entities or any existing entities have deficiencies in their internal controls, it may impact our internal controls.

Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our or our subsidiaries' operating results or cause us or our subsidiaries to fail to meet our respective reporting obligations. If we or our subsidiaries are unable to conclude that we or our subsidiaries have effective internal controls over financial reporting, or if our or our subsidiaries' independent registered public accounting firm is unable to provide us or our subsidiaries with an unqualified report regarding the effectiveness of our or our subsidiaries' internal controls over financial reporting to the extent required by Section 404 of the Sarbanes-Oxley Act

of 2002, investors could lose confidence in the reliability of our or our subsidiaries' financial statements. Failure to comply with Section 404 of the Sarbanes-Oxley Act of 2002 could potentially subject us or our subsidiaries to sanctions or investigations by the Commission, or other regulatory authorities. In addition, failure to comply with our reporting obligations with the Commission may cause an event of default to occur under the Indentures, or similar instruments governing any debt we or our subsidiaries incur in the future.
Limitations on liability and indemnification matters.
As permitted by Delaware law, we have included in our amended and restated certificate of incorporation a provision to eliminate the personal liability of our directors for monetary damages for breach or alleged breach of their fiduciary duties as directors, subject to certain exceptions. Our restated bylaws also provide that we are required to indemnify our directors under certain circumstances, including those circumstances in which indemnification would otherwise be discretionary, and we will be required to advance expenses to our directors as incurred in connection with proceedings against them for which they may be indemnified.

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In addition, we may, by action of our Board, provide indemnification and advance expenses to our officers, employees and agents (other than directors), to directors, officers, employees or agents of a subsidiary of the Company, and to each person serving as a director, officer, partner, member, employee or agent of another corporation, partnership, limited liability company, joint venture, trust or other enterprise, at our request, with the same scope and effect as the indemnification of our directors provided in our restated bylaws.

We and our subsidiaries may be adversely affected by further deterioration in economic conditions.

From December 2007 through June 2009, the U.S. economy was in recession. Business activity across a wide range of industries and regions in the U.S. was greatly reduced. Although economic conditions have begun to improve, certain sectors remain weak and unemployment remains high. Local governments and many businesses are in serious difficulty due to lower consumer spending and the lack of liquidity in the credit markets.

In 2011 and 2012, concern over sovereign debt in Greece, Spain, Italy and certain other European Union countries caused significant fluctuations of the Euro, relative to other currencies, such as the U.S. Dollar. Criticism of excessive national debt among certain European Union countries has led to credit downgrades of the sovereign debt of several countries in the region, and uncertainty about the future status of the Euro. Destabilization of the European economy could lead to a decrease in consumer confidence, which could cause reductions in discretionary spending and demand for our subsidiary Spectrum Brands' products. Furthermore, sovereign debt issues could also lead to further significant, and potentially longer-term, economic issues, such as reduced economic growth and devaluation of the Euro against the U.S. Dollar, any of which could adversely affect our and each of our subsidiaries' business, financial condition and operating results.

Additionally, a slowing of improvement or a return to deteriorating business and economic conditions could have one or more of the following adverse effects, in particular, on the Asset Managers' businesses: a decrease in the demand for loans and other products and services offered by the Asset Managers; a decrease in net interest income derived from the Asset Managers' lending and investment activities, as applicable; a decrease in the value of the Asset Managers' assets, including the value of assets pledged as collateral by the Asset Managers' borrowers, as applicable; an impairment of certain intangible assets, such as goodwill; and an increase in the number of borrowers and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to the Asset Managers, as applicable. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs, provision for loan losses and valuation adjustments on the Asset Managers' loans, as applicable.

We may issue additional shares of common stock or preferred stock which would dilute the interests of our stockholders and could present other risks.

Our amended and restated certificate of incorporation authorizes the issuance of up to 500,000,000 shares of common stock and 10,000,000 shares of preferred stock. As of November 2, 2015, we had 201,397,256 shares of our common stock outstanding. In addition, as of November 2, 2015, we have 9,087,965 shares of common stock remaining for issuance pursuant to the Harbinger Group Inc. 2011 Omnibus Equity Award Plan, as amended and 1,800,000 shares of common stock remaining for issuance pursuant to the Harbinger Group Inc. 2014 Warrant Plan.

Price fluctuations in our Common Stock could result from general market and economic conditions and a variety of other factors, including factors that affect the volatility of the common stock of any of our publicly-held subsidiaries.

The trading price of our Common Stock may be highly-volatile and could be subject to fluctuations in response to a number of factors beyond our control, including:

- actual or anticipated fluctuations in our results of operations and the performance of our subsidiaries and their competitors;
- reaction of the market to our announcement of any future acquisitions or investments;
- the public's reaction to our press releases, our other public announcements and our filings with the Commission;
- changes in general economic conditions;
- actions of our historical equity investors, including sales of common stock by HCP, our directors and our executive officers; and
- actions by institutional investors trading in our stock.

In addition, the trading price of our Common Stock could be subject to fluctuations in response to a number of factors that affect the volatility of the common stock of any of our subsidiaries, such as Spectrum Brands and FGL, which are publicly traded.

Future sales of substantial amounts of our Common Stock may adversely affect our market price.

We have granted registration rights to Leucadia, CF Turul, HCP and certain of their transferees under a registration rights agreement, to facilitate the resale of their shares of our Common Stock. Under this registration rights agreement, Leucadia, CF Turul, HCP and certain of their transferees have the right, subject to certain conditions, to require us to register the sale of their shares or their permitted transferees' shares under the federal securities laws. By exercising their registration rights, and selling all or a portion of their shares, Leucadia, CF Turul, HCP and their permitted transferees could cause the prevailing market price of our Common Stock to decline. We have filed several registration statements on Form S-3 that have registered the sale of a substantial amount of our Common Stock, from time to time, in secondary offerings by the stockholders listed therein. Furthermore, the shares of our Common Stock owned by Leucadia, CF Turul, HCP may also be sold in the public market under Rule 144 of the Securities Act. We have, in the past, issued a substantial amount of shares of preferred stock, the majority of which were subsequently converted into shares of our Common Stock. We may issue a substantial amount of preferred stock in the future. If these rights are exercised in full, it might adversely affect the market price of our Common Stock.

Future sales of substantial amounts of our Common Stock into the public market, or perceptions in the market that such sales could occur, may adversely affect the prevailing market price of our Common Stock and impair our ability to raise capital through the sale of additional equity securities.

The market liquidity for our Common Stock is relatively low and may make it difficult to purchase or sell our stock.

The daily trading volume in our Common Stock is volatile and relatively low, which may make it difficult to purchase or sell shares of our Common Stock. Although a more active trading market may develop in the future, there can be no assurance as to the liquidity of any markets that may develop for our Common Stock or the prices at which holders may be able to sell our Common Stock and the limited market liquidity for our stock could affect a stockholder's ability to sell at a price satisfactory to that stockholder.

From time to time, we and our subsidiaries may be subject to litigation for which we and our subsidiaries may be unable to accurately assess our level of exposure and which, if adversely determined, may have a material adverse effect on our consolidated financial condition or results of operations.

We and our subsidiaries are or may become parties to legal proceedings related to our or their current or prior businesses for which, depending on the circumstances, a reserve may not have been established or otherwise provided for or insured against. There can be no assurance that we will prevail in any litigation in which we or our subsidiaries may become involved, or that our or their insurance coverage will be adequate to cover any or all potential losses. In addition, from time to time, we may decide to settle litigation involving us or our subsidiaries for a variety of reasons and regardless of our perceived merits of the claims related to such litigation. Such settlements may include non-monetary, as well as monetary terms. To the extent that we or our subsidiaries sustain losses from such proceeding which are not reserved or otherwise provided for or insured against, our business, results of operations, cash flows and/or financial condition could be materially adversely affected. See Part I, Item 3. "Legal Proceedings."

Agreements, transactions and litigation involving or resulting from the activities of our predecessor and its former subsidiaries may subject us to future claims or litigation that could materially adversely impact our capital resources.

HRG is the successor to Zapata Corporation, which was a holding company engaged, through its subsidiaries, in a number of business activities. The activities of our predecessor company and its subsidiaries may subject us to future claims or litigation regardless of the merit of such claims or litigation and the defenses available to us and our subsidiaries. The time and expense that we may be required to dedicate to such matters may be material to us and our subsidiaries and may adversely impact our capital resources. In addition, throughout our history, our predecessor company entered into numerous transactions relating to the sale, disposal or spinoff of its partially and wholly-owned subsidiaries. We may have continuing obligations pursuant to certain of these transactions, including obligations to indemnify other parties to agreements, and may be subject to risks resulting from these transactions. See Part I, Item 3. "Legal Proceedings."

Risks Related to Spectrum Brands' Business

Spectrum Brands is a parent company with limited business operations of its own. Its main asset is the capital stock of its subsidiaries, including SBI. Spectrum Brands conducts most of its business operations through its subsidiaries and its primary source of cash is and will be distributions from its subsidiaries.

Accordingly, Spectrum Brands' primary sources of cash are dividends and distributions with respect to its ownership interests in its subsidiaries that are derived from their earnings and cash flow. Spectrum Brands' and SBI's subsidiaries might not generate sufficient earnings and cash flow to pay dividends or distributions in the future. Spectrum Brands' and SBI's subsidiaries' payments to their respective parent will be contingent upon their earnings and upon other business considerations. In addition, SBI's term loan facility (the "SBI Term Loan Facility"), SBI's asset-based revolving credit facility (the "SBI ABL Facility," and, together with the SBI Term Loan Facility, the "SBI Senior Secured Facilities"), the indentures governing SBI's 6.375% Senior Notes due 2020 (the "SBI 2020 Notes"), SBI's 6.625% Senior Notes due 2022 (the "SBI 2022 Notes"), SBI's 6.125% Senior Notes due 2024 (the "SBI 2024 Notes") and SBI's 5.750% Senior Notes due 2025 (the "SBI 2025 Notes," and, together with the SBI 2020 Notes, the SBI 2022 Notes and the SBI 2024 Notes, the "SBI Notes," and, such indentures governing the SBI Notes, the "SBI Indentures").

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Spectrum Brands' substantial indebtedness may limit its financial and operating flexibility, and Spectrum Brands may incur additional debt, which could increase the risks associated with its substantial indebtedness.
SBI has, and expects to continue to have, a significant amount of indebtedness. As of September 30, 2015, SBI had total indebtedness under the SBI Senior Secured Facilities, the SBI Notes and other debt instruments of approximately $3 billion. SBI's substantial indebtedness has had, and could continue to have, material adverse consequences for its business, and may:

- require Spectrum Brands to dedicate a large portion of its cash flow to pay principal and interest on its indebtedness, which will reduce the availability of its cash flow to fund working capital, capital expenditures, research and development expenditures and other business activities;
- increase its vulnerability to general adverse economic and industry conditions;
- limit its flexibility in planning for, or reacting to, changes in its business and the industry in which Spectrum Brands operates;
- restrict its ability to make strategic acquisitions, dispositions or to exploit business opportunities;
- places Spectrum Brands at a competitive disadvantage compared to its competitors that have less debt; and
- limit its ability to borrow additional funds (even when necessary to maintain adequate liquidity) or dispose of assets.

Under the SBI Senior Secured Facilities and the SBI indentures governing the Notes (together, the "Indentures"), SBI may incur additional indebtedness. If new debt is added to its existing debt levels, the related risks that Spectrum Brands now faces would increase.
Furthermore, a substantial portion of SBI's debt bears interest at variable rates. If market interest rates increase, the interest rate on SBI's variable rate debt will increase and will create higher debt service requirements, which would adversely affect SBI's cash flow and could adversely impact SBI's results of its operations. While SBI may enter into agreements limiting SBI's exposure to higher debt service requirements, any such agreements may not offer complete protection from this risk.
Restrictive covenants in the SBI Senior Secured Facilities and the SBI Indentures may restrict SBI's ability to pursue its business strategies.
The SBI Senior Secured Facilities and the SBI Indentures each restrict, among other things, asset dispositions, mergers and acquisitions, dividends, stock repurchases and redemptions, other restricted payments, indebtedness and preferred stock, loans and investments, liens and affiliate transactions. The SBI Senior Secured Facilities and the SBI Indentures also contain customary events of default. These covenants could, among other things, limit SBI's ability to fund future working capital and capital expenditures, engage in future acquisitions or development activities, or otherwise realize the value of its assets and opportunities fully. In addition, the SBI Senior Secured Facilities and the SBI Indentures require SBI to dedicate a portion of cash flow from operations to payments on debt and the SBI Senior Secured Facilities contain financial covenants relating to maximum leverage and minimum interest coverage. Such requirements and covenants could limit the flexibility of SBI's restricted entities in planning for, or reacting to, changes in the industries in which they operate. SBI's ability to comply with these covenants is subject to certain events outside of its control. If SBI is unable to comply with these covenants, the lenders under SBI Senior Secured Facilities could terminate their commitments and the lenders under the SBI Senior Secured Facilities or the holders of the SBI Notes could accelerate repayment of its outstanding borrowings and, in either case, SBI may be unable to obtain adequate refinancing of outstanding borrowings on favorable terms or at all. If SBI is unable to repay outstanding borrowings when due, the lenders under the SBI Senior Secured Facilities will also have the right to proceed against the collateral granted to them to secure the indebtedness owed to them. If SBI's obligations under the SBI Senior Secured Facilities are accelerated, SBI cannot assure you that its assets would be sufficient to repay in full such indebtedness.
The sale or other disposition by HRG, the holder of a majority of the outstanding shares of Spectrum Brands' common stock, to non-affiliates of a sufficient amount of the common stock of Spectrum Brands would constitute a change of control under the agreements governing the Spectrum Brands' debt.
HRG owns a majority of the outstanding shares of the common stock of Spectrum Brands. The sale or other disposition by HRG to non-affiliates of a sufficient amount of the common stock of Spectrum Brands could constitute a change of control under certain of the agreements governing Spectrum Brands' debt, including any foreclosure on or

sale of Spectrum Brands' common stock pledged as collateral by HRG pursuant to the indenture governing HRG's 7.875% Senior Secured Notes due 2019. Under the SBI's Senior Secured Facilities, a change of control is an event of default and, if a change of control were to occur, Spectrum Brands would be required to obtain an amendment to these agreements to avoid a default. If Spectrum Brands was unable to obtain such an amendment, the lenders could accelerate the maturity of each of Spectrum Brands' Term Loan and the Revolver Facility. In addition, under the Indentures, upon a change of control of Spectrum Brands, Spectrum Brands is required to offer to repurchase such notes from the holders at a price equal to 101% of the principal amount of the notes plus accrued interest or obtain a waiver of default from the holders of such notes. If Spectrum Brands was unable to make the change of control offer, or to obtain a waiver of default, it would be an event of default under the indentures that could allow holders of such notes to accelerate the maturity of the notes.

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Spectrum Brands participates in very competitive markets and it may not be able to compete successfully, causing Spectrum Brands to lose market share and sales.

The markets in which Spectrum Brands participates are very competitive. In the consumer battery market, Spectrum Brands' primary competitors are Duracell (a brand of Procter & Gamble), Energizer and Panasonic (a brand of Matsushita). In the electric shaving and grooming and electric personal care product markets, Spectrum Brands' primary competitors are Braun (a brand of Procter & Gamble), Norelco (a brand of Philips), and Vidal Sassoon and Revlon (brands of Helen of Troy). In the pet supplies market, Spectrum Brands' primary competitors are Mars, Hartz and Central Garden & Pet. In the home and garden business, Spectrum Brands' principal national competitors are Scotts, Central Garden & Pet and S.C. Johnson. Spectrum Brands' principal national competitors within its small appliances product category include Jarden Corporation, DeLonghi America, Euro-Pro Operating LLC, Metro Thebe, Inc., (d/b/a HWI Breville) NACCO Industries, Inc. (Hamilton Beach) and SEB S.A. In the hardware and home improvement industry, Spectrum Brands' principal competitors are Schlage, a division of Allegion, Masco, Fortune Brands, Kohler and American Standard. In the global auto care business, Spectrum Brands' primary competitors are Valvoline, Prestone, Turtle Wax, Black Magic and Store brands.

In each of these markets, Spectrum Brands also faces competition from numerous other companies. In addition, in a number of Spectrum Brands' product lines, it competes with its retail customers, who use their own private label brands, and with distributors and foreign manufacturers of unbranded products. Significant new competitors or increased competition from existing competitors may adversely affect Spectrum Brands' business, financial condition and results of Spectrum Brands' operations.

Spectrum Brands competes with its competitors for consumer acceptance and limited shelf space based upon brand name recognition, perceived product quality, price, performance, product features and enhancements, product packaging and design innovation, as well as creative marketing, promotion and distribution strategies, and new product introductions. Spectrum Brands' ability to compete in these consumer product markets may be adversely affected by a number of factors, including, but not limited to, the following:

- Spectrum Brands competes against many well-established companies that may have substantially greater financial and other resources, including personnel and research and development, and greater overall market share than Spectrum Brands.
- In some key product lines, Spectrum Brands' competitors may have lower production costs and higher profit margins than it, which may enable them to compete more aggressively in offering retail discounts, rebates and other promotional incentives.
- Technological advancements, product improvements or effective advertising campaigns by competitors may weaken consumer demand for Spectrum Brands' products.
- Consumer purchasing behavior may shift to distribution channels, including to online retailers, where Spectrum Brands and its customers do not have a strong presence.
- Consumer preferences may change to lower margin products or products other than those Spectrum Brands' markets.
- Spectrum Brands may not be successful in the introduction, marketing and manufacture of any new products or product innovations or be able to develop and introduce, in a timely manner, innovations to its existing products that satisfy customer needs or achieve market acceptance.

Some competitors may be willing to reduce prices and accept lower profit margins to compete with Spectrum Brands. As a result of this competition, Spectrum Brands could lose market share and sales, or be forced to reduce its prices to meet competition. If Spectrum Brands' product offerings are unable to compete successfully, its sales, results of operations and financial condition could be materially and adversely affected. In addition, Spectrum Brands may be unable to implement changes to its products or otherwise adapt to changing consumer trends. If Spectrum Brands is unable to respond to changing consumer trends, its operating results and financial condition could be adversely affected.

Sales of certain of Spectrum Brands' products are seasonal and may cause its operating results and working capital requirements to fluctuate.

On a consolidated basis Spectrum Brands' financial results are approximately equally weighted between quarters, however, sales of certain product categories tend to be seasonal. Sales in the consumer battery, electric shaving and grooming and electric personal care product categories, particularly in North America, tend to be concentrated in the December holiday season (Spectrum Brands' first fiscal quarter). Demand for hardware and home improvement products increases during the spring and summer construction period (Spectrum Brands' third and fourth fiscal quarters) and demand for pet supplies products remains fairly constant throughout the year. Demand for home and garden control products typically peaks during the first six months of the calendar year (Spectrum Brands' second and third fiscal quarters). Small Appliances peaks from July through December primarily due to the increased demand by customers in the late summer for "back-to-school" sales and in the fall for the holiday season. Demand for auto care products is generally at its highest during the period from March to June (Spectrum Brands' second and third fiscal quarters) based upon historical customer seasonal purchasing patterns and timing of promotional activities. As a result of this seasonality,

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Spectrum Brands' inventory and working capital needs fluctuate significantly throughout the year. In addition, orders from retailers are often made late in the period preceding the applicable peak season, making forecasting of production schedules and inventory purchases difficult. If Spectrum Brands is unable to accurately forecast and prepare for customer orders or its working capital needs, or there is a general downturn in business or economic conditions during these periods, its business, financial condition and results of operations could be materially and adversely affected.

Adverse weather conditions during Spectrum Brands' peak selling seasons for its home and garden control and auto care products could have a material adverse effect on its home and garden business and auto care business.

Weather conditions have a significant impact on the timing and volume of sales of certain of its lawn and garden and household insecticide and repellent products. For example, periods of dry, hot weather can decrease insecticide sales, while periods of cold and wet weather can slow sales of herbicides. Adverse weather conditions during the first six months of the calendar year (Spectrum Brands' second and third fiscal quarters), when demand for home and garden control products typically peaks, could have a material adverse effect on its home and garden business and its financial results during such period. Weather can influence customer behavior for our auto care products, especially with appearance products, which sell best during warm, dry weather. There could be a material adverse effect on the auto care segment if the weather is cold or wet, especially during peak sales season.

Spectrum Brands is subject to significant international business risks that could hurt its business and cause its results of operations to fluctuate.

Approximately 40% of Spectrum Brands' net sales for Fiscal 2015 were to customers outside of the U.S. Spectrum Brands' pursuit of international growth opportunities may require significant investments for an extended period before returns on these investments, if any, are realized. Spectrum Brands' international operations are subject to risks including, among others:

- currency fluctuations, including, without limitation, fluctuations in the foreign exchange rate of the Euro, British Pound, Brazilian Real, Canadian Dollar, Australian Dollar, Japanese Yen and the Mexican Peso;
- changes in the economic conditions or consumer preferences or demand for its products in these markets;
- the risk that because its brand names may not be locally recognized, Spectrum Brands must spend significant amounts of time and money to build brand recognition without certainty that Spectrum Brands will be successful;
- labor unrest;
- political and economic instability, as a result of war, terrorist attacks, pandemics, natural disasters or otherwise;
- lack of developed infrastructure;
- longer payment cycles and greater difficulty in collecting accounts;
- restrictions on transfers of funds;
- import and export duties and quotas, as well as general transportation costs;
- changes in domestic and international customs and tariffs;
- changes in foreign labor laws and regulations affecting Spectrum Brands' ability to hire and retain employees;
- inadequate protection of intellectual property in foreign countries;
- unexpected changes in regulatory environments;
- difficulty in complying with foreign law; and
- adverse tax consequences.

The foregoing factors may have a material adverse effect on Spectrum Brands' ability to increase or maintain its supply of products, financial condition or results of operations.

Spectrum Brands' products utilize certain key raw materials; any significant increase in the price of, or change in supply and demand for, these raw materials could have a material and adverse effect on its business, financial condition and profits.

The principal raw materials used to produce Spectrum Brands' products-including zinc powder, brass, electrolytic manganese dioxide powder, petroleum-based plastic materials, steel, aluminum, copper and corrugated materials (for packaging)-are sourced either on a global or regional basis by Spectrum Brands or its suppliers, and the prices of those raw materials are susceptible to price fluctuations due to supply and demand trends, energy costs, transportation costs, government regulations, duties and tariffs, changes in currency exchange rates, price controls, general economic conditions and other unforeseen circumstances. In particular, during the years 2012 and 2013, Spectrum Brands experienced extraordinary price increases for raw materials, particularly as a result of strong demand from China. Although Spectrum Brands may increase the prices of certain of its goods to its customers, Spectrum Brands may not be able to pass all of these cost increases on to its customers. As a result, its margins may be adversely impacted by such cost increases. Spectrum Brands cannot provide any assurance that its sources of supply will not be interrupted due to changes in worldwide supply of or demand for raw materials or other events that interrupt material flow, which may have an adverse effect on its profitability and results of operations.

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Spectrum Brands regularly engages in forward purchase and hedging derivative transactions in an attempt to effectively manage and stabilize some of the raw material costs it expects to incur over the next 12 to 24 months. However, Spectrum Brands' hedging positions may not be effective, or may not anticipate beneficial trends, in a particular raw material market or may, as a result of changes in its business, no longer be useful for Spectrum Brands. In addition, for certain of the principal raw materials Spectrum Brands uses to produce its products, such as electrolytic manganese dioxide powder, there are no available effective hedging markets. If these efforts are not effective or expose Spectrum Brands to above average costs for an extended period of time, and Spectrum Brands is unable to pass its raw materials costs on to its customers, Spectrum Brands' future profitability may be materially and adversely affected. Furthermore, with respect to transportation costs, certain modes of delivery are subject to fuel surcharges which are determined based upon the current cost of diesel fuel in relation to pre-established agreed upon costs. Spectrum Brands may be unable to pass these fuel surcharges on to its customers, which may have an adverse effect on its profitability and results of operations.

In addition, Spectrum Brands has exclusivity arrangements and minimum purchase requirements with certain of its suppliers for the home and garden business, which increase its dependence upon and exposure to those suppliers. Some of those agreements include caps on the price Spectrum Brands pays for its supplies and in certain instances, these caps have allowed Spectrum Brands to purchase materials at below market prices. When Spectrum Brands attempts to renew those contracts, the other parties to the contracts may not be willing to include or may limit the effect of those caps and could even attempt to impose above market prices in an effort to make up for any below market prices paid by Spectrum Brands prior to the renewal of the agreement. Any failure to timely obtain suitable supplies at competitive prices could materially adversely affect Spectrum Brands' business, financial condition and results of operations.

Consolidation of retailers and Spectrum Brands' dependence on a small number of key customers for a significant percentage of its sales may negatively affect its business, financial condition and results of operations.

As a result of consolidation of retailers and consumer trends toward national mass merchandisers, a significant percentage of Spectrum Brands' sales are attributable to a very limited group of customers. Spectrum Brands' largest customer accounted for approximately 15% of its consolidated net sales for Fiscal 2015. As these mass merchandisers and retailers grow larger and become more sophisticated, they may demand lower pricing, special packaging or impose other requirements on product suppliers. These business demands may relate to inventory practices, logistics or other aspects of the customer-supplier relationship. Because of the importance of these key customers, demands for price reductions or promotions, reductions in their purchases, changes in their financial condition or loss of their accounts could have a material adverse effect on Spectrum Brands' business, financial condition and results of operations.

Although Spectrum Brands has long-established relationships with many of its customers, Spectrum Brands does not have long-term agreements with them and purchases are generally made through the use of individual purchase orders. Any significant reduction in purchases, failure to obtain anticipated orders or delays or cancellations of orders by any of these major customers, or significant pressure to reduce prices from any of these major customers, could have a material adverse effect on Spectrum Brands' business, financial condition and results of operations. Additionally, a significant deterioration in the financial condition of the retail industry in general, the bankruptcy of any of Spectrum Brands' customers or if any of Spectrum Brands' customers were to leave the business, could have a material adverse effect on Spectrum Brands' sales and profitability.

In addition, as a result of the desire of retailers to more closely manage inventory levels, there is a growing trend among them to purchase products on a "just-in-time" basis. Due to a number of factors, including (i) manufacturing lead-times, (ii) seasonal purchasing patterns and (iii) the potential for material price increases, Spectrum Brands may be required to shorten its lead-time for production and more closely anticipate its retailers' and customers' demands, which could in the future requires it to carry additional inventories and increase its working capital and related financing requirements. This may increase the cost of warehousing inventory or result in excess inventory becoming difficult to manage, unusable or obsolete. In addition, if its retailers significantly change their inventory management strategies, Spectrum Brands may encounter difficulties in filling customer orders or in liquidating excess inventories, or may find that customers are cancelling orders or returning products, which may have a material adverse effect on its business.

Furthermore, Spectrum Brands primarily sells branded products and a move by one or more of its large customers to sell significant quantities of private label products, which Spectrum Brands does not produce on their behalf and which directly compete with its products, could have a material adverse effect on Spectrum Brands' business, financial condition and results of operations.

As a result of its international operations, Spectrum Brands faces a number of risks related to exchange rates and foreign currencies.

Spectrum Brands' international sales and certain of its expenses are transacted in foreign currencies. During Fiscal 2015, approximately 40% of Spectrum Brands' net sales and operating expenses were denominated in foreign currencies. Spectrum Brands expects that the amount of its revenues and expenses transacted in foreign currencies will increase as its Latin American, European and Asian operations grow and as a result of acquisitions in these markets and, as a result, its exposure to risks associated with foreign currencies could increase accordingly. Significant changes in the value of the U.S. dollar in relation to foreign currencies will affect Spectrum Brands' cost of goods sold and its operating margins and could result in exchange losses or otherwise have a material effect on Spectrum Brands' business, financial condition and results of operations. Changes in currency exchange rates may also affect Spectrum Brands' sales to, purchases from, and loans to, its subsidiaries, as well as sales to, purchases from, and provided bank lines of credit with, its customers, suppliers and creditors that are denominated in foreign currencies.

Spectrum Brands sources many products from China and other Asian countries. To the extent the Chinese Renminbi ("RMB") or other currencies appreciate with respect to the U.S. dollar, Spectrum Brands may experience fluctuations in Spectrum Brands' results of operations. Since 2005, the RMB has no longer been pegged to the U.S. dollar at a constant exchange rate and instead fluctuates versus a basket of currencies. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate within a flexible peg range against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future Chinese authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

While Spectrum Brands may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and Spectrum Brands may not be able to successfully hedge its exposure to currency fluctuations. Further, Spectrum Brands may not be successful in implementing customer pricing or other actions in an effort to mitigate the impact of currency fluctuations and, thus, its results of operations may be adversely impacted.

Spectrum Brands' international operations may expose it to risks related to compliance with the laws and regulations of foreign countries.

Spectrum Brands is subject to three EU Directives that may have a material impact on its business: Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment; Waste of Electrical and Electronic Equipment and the Directive on Batteries and Accumulators and Waste Batteries, discussed below. Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment requires Spectrum Brands to eliminate specified hazardous materials from products it sells in EU member states. Waste of Electrical and Electronic Equipment requires Spectrum Brands to collect and treat, dispose of or recycle certain products it manufactures or imports into the EU at its own expense. The EU Directive on Batteries and Accumulators and Waste Batteries bans heavy metals in batteries by establishing maximum quantities of heavy metals in batteries and mandates waste management of these batteries, including collection, recycling and disposal systems, with the costs imposed upon producers and importers such as Spectrum Brands. The costs associated with maintaining compliance or failing to comply with the EU Directives may harm Spectrum Brands' business. For example:

- Although contracts with its suppliers address related compliance issues, Spectrum Brands may be unable to procure appropriate Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment compliant material in sufficient quantity and quality and/or be able to incorporate it into its product procurement processes without compromising quality and/or harming its cost structure.
- Spectrum Brands may face excess and obsolete inventory risk related to non-compliant inventory that it may hold for which there is reduced demand, and it may need to write down the carrying value of such inventories.
- Spectrum Brands may be unable to sell certain existing inventories of its batteries in Europe and other countries that have adopted similar regulations.

Many of the developing countries in which Spectrum Brands operates do not have significant governmental regulation relating to environmental safety, occupational safety, employment practices or other business matters routinely regulated in the U.S. and EU or may not rigorously enforce such regulation. As these countries and their economies develop, it is possible that new regulations or increased enforcement of existing regulations may increase the expense of doing business in these countries. In addition, social legislation in many countries in which Spectrum Brands operates may result in significantly higher expenses associated with labor costs, terminating employees or distributors and closing manufacturing facilities. Increases in Spectrum Brands' costs as a result of increased regulation, legislation or enforcement could materially and adversely affect its business, results of operations and financial condition.

Spectrum Brands may not be able to adequately establish and protect its intellectual property rights, and the infringement or loss of its intellectual property rights could harm its business.

To establish and protect its intellectual property rights, Spectrum Brands relies upon a combination of national, foreign and multi-national patent, trademark and trade secret laws, together with licenses, confidentiality agreements and other contractual arrangements. The measures that Spectrum Brands takes to protect its intellectual property rights may prove inadequate to prevent third parties from infringing or misappropriating its intellectual property. Spectrum Brands may need to resort to litigation to enforce or defend its intellectual property rights. If a competitor or collaborator files a patent application claiming technology also claimed by Spectrum Brands, or a trademark application claiming a trademark, service mark or trade dress also used by Spectrum Brands, in order to protect its rights, it may have to participate in expensive and time consuming opposition or interference proceedings before the U.S. Patent and Trademark Office or a similar foreign agency. Similarly, its intellectual property rights may be challenged by third parties or invalidated through administrative process or litigation. The costs associated with protecting intellectual property rights, including litigation costs, may be material. Furthermore, even if Spectrum Brands' intellectual property rights are not directly challenged, disputes among third parties could lead to the weakening or invalidation of its intellectual property rights, or its competitors may independently develop technologies that are substantially equivalent or superior to its technology. Obtaining, protecting and defending intellectual property rights can be time consuming and expensive, and may require Spectrum Brands to incur substantial costs, including the diversion of the time and resources of management and technical personnel.

Moreover, the laws of certain foreign countries in which Spectrum Brands operates or may operate in the future do not protect, and the governments of certain foreign countries do not enforce, intellectual property rights to the same extent as do the laws and government of the U.S., which may negate Spectrum Brands' competitive or technological advantages in such markets. Also, some of the technology underlying Spectrum Brands' products is the subject of nonexclusive licenses from third parties. As a result, this technology could be made available to Spectrum Brands' competitors at any time. If Spectrum Brands is unable to establish and then adequately protect its intellectual property rights, its business, financial condition and results of operations could be materially and adversely affected.

Spectrum Brands licenses various trademarks, trade names and patents from third parties for certain of its products. These licenses generally place marketing obligations on Spectrum Brands and require Spectrum Brands to pay fees and royalties based on net sales or profits. Typically, these licenses may be terminated if Spectrum Brands fails to satisfy certain minimum sales obligations or if it breaches the terms of the license. The termination of these licensing arrangements could adversely affect Spectrum Brands' business, financial condition and results of operations.

In Spectrum Brands' Global Batteries & Appliances segment, Spectrum Brands licenses the use of the Black and Decker brand for marketing in certain small household appliances in North America, South America (excluding Brazil) and the Caribbean. In July 2014, BDC extended the license agreement through December 2018. The failure to renew the license agreement with BDC or to enter into a new agreement on acceptable terms for the period following December 2018 could have a material adverse effect on Spectrum Brands' financial condition, liquidity and results of operations. Additionally, in connection with Spectrum Brands' acquisition of the HHI Business, it received a limited right to use certain Stanley Black and Decker trademarks, brand names and logos in marketing Spectrum Brands' products and services for only five years. Pursuant to a transitional trademark license agreement, Stanley Black and Decker granted Spectrum Brands the right to use the "Stanley" and "Black and Decker" marks and logos, and certain other marks and logos, for up to five years after the completion of the HHI Business acquisition in connection with certain products and services. With Spectrum Brands' right to use these Stanley Black and Decker trademarks, brand names and logos expires, Spectrum Brands may not be able to maintain or enjoy comparable name recognition or status under its new brand. If Spectrum Brands is unable to successfully manage the transition of its business to its new brand, Spectrum Brands' reputation among its customers could be adversely affected, and its revenue and profitability could decline.

Claims by third parties that Spectrum Brands is infringing their intellectual property and other litigation could adversely affect its business.

From time to time in the past Spectrum Brands has been subject to claims that it is infringing the intellectual property of others. Spectrum Brands currently is the subject of such claims and it is possible that third parties will assert infringement claims against Spectrum Brands in the future. An adverse finding against Spectrum Brands in these or similar trademark or other intellectual property litigations may have a material adverse effect on Spectrum Brands' business, financial condition and results of operations. Any such claims, with or without merit, could be time consuming and expensive, and may require Spectrum Brands to incur substantial costs, including the diversion of the resources of management and technical personnel, cause product delays or require Spectrum Brands to enter into licensing or other agreements in order to secure continued access to necessary or desirable intellectual property. If Spectrum Brands is deemed to be infringing a third party's intellectual property and is unable to continue using that intellectual property as it had been, its business and results of operations could be harmed if it is unable to successfully develop non-infringing alternative intellectual property on a timely basis or license non-infringing alternatives or substitutes, if any exist, on commercially reasonable terms. In addition, an unfavorable ruling in intellectual property litigation could subject Spectrum Brands to significant liability, as well as require Spectrum Brands to cease developing, manufacturing or selling the affected products or using the affected processes or trademarks. Any significant restriction on Spectrum Brands' proprietary or licensed intellectual property that impedes its ability to develop and commercialize its products could have a material adverse effect on its business, financial condition and results of operations.

Spectrum Brands' dependence on a few suppliers and one of its U.S. facilities for certain of its products makes it vulnerable to a disruption in the supply of its products.

Although Spectrum Brands has long-standing relationships with many of its suppliers, it generally does not have long-term contracts with them. An adverse change in any of the following could have a material adverse effect on its business, financial condition and results of operations:

- its ability to identify and develop relationships with qualified suppliers;

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- the terms and conditions upon which it purchases products from its suppliers, including applicable exchange rates, transport and other costs, its suppliers' willingness to extend credit to Spectrum Brands to finance its inventory purchases and other factors beyond its control;
- the financial condition of its suppliers;
- political and economic instability in the countries in which its suppliers are located, as a result of war, terrorist attacks, pandemics, natural disasters or otherwise;
- its ability to import outsourced products;
- its suppliers' noncompliance with applicable laws, trade restrictions and tariffs; or
- its suppliers' ability to manufacture and deliver outsourced products according to its standards of quality on a timely and efficient basis.

If Spectrum Brands' relationship with one of its key suppliers is adversely affected, Spectrum Brands may not be able to quickly or effectively replace such supplier and may not be able to retrieve tooling, molds or other specialized production equipment or processes used by such supplier in the manufacture of its products. The loss of one or more of its suppliers, a material reduction in their supply of products or provision of services to Spectrum Brands or extended disruptions or interruptions in their operations could have a material adverse effect on Spectrum Brands' business, financial condition and results of operations.

Spectrum Brands manufactures the majority of its foil cutting systems for its shaving product lines, using specially designed machines and proprietary cutting technology, at its Portage, Wisconsin facility. In addition, Spectrum Brands also manufactures the majority of its residential door locks at its Subic Bay, Philippines facility. Spectrum Brands' home and garden products are mainly manufactured from its St. Louis, Missouri, facility. Damage to these facilities, or prolonged interruption in the operations of these facilities whether for repairs, as a result of labor difficulties or for other reasons, could have a material adverse effect on its ability to manufacture and sell its foil shaving, residential door locks and home and garden products, which could in turn harm its business, financial condition and results of operations.

Spectrum Brands faces risks related to its sales of products obtained from third-party suppliers.

Spectrum Brands sells a significant number of products that are manufactured by third party suppliers over which it has no direct control. While Spectrum Brands has implemented processes and procedures to try to ensure that the suppliers it uses are complying with all applicable regulations, there can be no assurances that such suppliers in all instances will comply with such processes and procedures or otherwise with applicable regulations. Noncompliance could result in Spectrum Brands' marketing and distribution of contaminated, defective or dangerous products which could subject it to liabilities and could result in the imposition by governmental authorities of procedures or penalties that could restrict or eliminate its ability to purchase products from non-compliant suppliers. Any or all of these effects could adversely affect Spectrum Brands' business, financial condition and results of operations.

In addition, the Dodd-Frank Act includes provisions regarding certain minerals and metals, known as conflict minerals, mined from the Democratic Republic of Congo and adjoining countries. These provisions require companies to undertake due diligence procedures and report on the use of conflict minerals in its products, including products manufactured by third parties. Compliance with these provisions will cause Spectrum Brands to incur costs to certify that its supply chain is conflict free and Spectrum Brands may face difficulties if its suppliers are unwilling or unable to verify the source of their materials. Spectrum Brands' ability to source these minerals and metals may also be adversely impacted. In addition, Spectrum Brands' customers may require that it provides them with a certification and its inability to do so may disqualify it as a supplier.

Class action and derivative action lawsuits and other investigations, regardless of their merits, could have an adverse effect on Spectrum Brands' business, financial condition and results of operations.

Spectrum Brands and certain of its officers and directors have been named in the past, and, may be named in the future, as defendants of class action and derivative action lawsuits. In the past, Spectrum Brands has also received requests for information from government authorities. Regardless of their subject matter or merits, class action lawsuits and other government investigations may result in significant cost to Spectrum Brands, which may not be covered by insurance, may divert the attention of management or may otherwise have an adverse effect on its business, financial condition and results of operations.

Spectrum Brands may be exposed to significant product liability claims which its insurance may not cover and which could harm its reputation.

In the ordinary course of its business, Spectrum Brands may be named as a defendant in lawsuits involving product liability claims. In any such proceeding, plaintiffs may seek to recover large and sometimes unspecified amounts of damages and the matters may remain unresolved for several years. Any such matters could have a material adverse effect on Spectrum Brands' business, results of operations and financial condition if it is unable to successfully defend against or settle these matters or if its insurance coverage is insufficient to satisfy any judgments against it or settlements relating to these matters. Although Spectrum Brands has product liability insurance coverage and an excess umbrella policy, its insurance policies may not provide coverage for certain, or any, claims against Spectrum Brands or may not be sufficient to cover all possible liabilities. Additionally, Spectrum

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Brands does not maintain product recall insurance. Spectrum Brands may not be able to maintain such insurance on acceptable terms, if at all, in the future. Moreover, any adverse publicity arising from claims made against Spectrum Brands, even if the claims were not successful, could adversely affect the reputation and sales of its products. In particular, product recalls or product liability claims challenging the safety of Spectrum Brands' products may result in a decline in sales for a particular product and could damage the reputation or the value of the related brand. This could be true even if the claims themselves are ultimately settled for immaterial amounts. This type of adverse publicity could occur and product liability claims could be made in the future.

Spectrum Brands may incur material capital and other costs due to environmental liabilities.

Spectrum Brands is subject to a broad range of federal, state, local, foreign and multi-national laws and regulations relating to the environment. These include laws and regulations that govern:

- discharges to the air, water and land;
- the handling and disposal of solid and hazardous substances and wastes; and
- remediation of contamination associated with release of hazardous substances at its facilities and at off-site disposal locations.

Risk of environmental liability is inherent in Spectrum Brands' business. As a result, material environmental costs may arise in the future. In particular, it may incur capital and other costs to comply with increasingly stringent environmental laws and enforcement policies, such as the EU Directives: Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment, Waste of Electrical and Electronic Equipment and the Directive on Batteries and Accumulators and Waste Batteries, discussed above. Spectrum Brands' international operations may expose Spectrum Brands to risks related to compliance with the laws and regulations of foreign countries. See Part I, Item 1A. "Risk Factors-Risks Related to Spectrum Brands' Business-Spectrum Brands' international operations may expose Spectrum Brands to risks related to compliance with the laws and regulations of foreign countries."

Moreover, there are proposed international accords and treaties, as well as federal, state and local laws and regulations that would attempt to control or limit the causes of climate change, including the effect of greenhouse gas emissions on the environment. In the event that the U.S. government or foreign governments enact new climate change laws or regulations or make changes to existing laws or regulations, compliance with applicable laws or regulations may result in increased manufacturing costs for Spectrum Brands' products, such as by requiring investment in new pollution control equipment or changing the ways in which certain of its products are made Spectrum Brands may incur some of these costs directly and others may be passed on to it from its third-party suppliers. Although Spectrum Brands believes that it is substantially in compliance with applicable environmental laws and regulations at its facilities, Spectrum Brands may not always be in compliance with such laws and regulations or any new laws and regulations in the future, which could have a material adverse effect on Spectrum Brands' business, financial condition and results of operations.

From time to time, Spectrum Brands has been required to address the effect of historic activities on the environmental condition of its properties or former properties. Spectrum Brands has not conducted invasive testing at all of its facilities to identify all potential environmental liability risks. Given the age of its facilities and the nature of its operations, material liabilities may arise in the future in connection with its current or former facilities. If previously unknown contamination of property underlying or in the vicinity of its manufacturing facilities is discovered, Spectrum Brands could be required to incur material unforeseen expenses. If this occurs, it may have a material adverse effect on Spectrum Brands' business, financial condition and results of operations. Spectrum Brands is currently engaged in investigative or remedial projects at a few of its facilities and any liabilities arising from such investigative or remedial projects at such facilities may have a material effect on Spectrum Brands' business, financial condition and results of operations.

In addition, in connection with business acquisitions, Spectrum Brands has assumed, and in connection with future acquisitions may assume in the future, certain potential environmental liabilities. To the extent Spectrum Brands has not identified such environmental liabilities or to the extent the indemnifications obtained from Spectrum Brands' counterparties are insufficient to cover such environmental liabilities, these environmental liabilities could have a material adverse effect on Spectrum Brands' business.

Spectrum Brands is also subject to proceedings related to its disposal of industrial and hazardous material at off-site disposal locations or similar disposals made by other parties for which it is responsible as a result of its relationship with such other parties. These proceedings are under CERCLA or similar state or foreign jurisdiction laws that hold persons who “arranged for” the disposal or treatment of such substances strictly liable for costs incurred in responding to the release or threatened release of hazardous substances from such sites, regardless of fault or the lawfulness of the original disposal. Liability under CERCLA is typically joint and several, meaning that a liable party may be responsible for all of the costs incurred in investigating and remediating contamination at a site. Spectrum Brands occasionally is identified by federal or state governmental agencies as being a potentially responsible party for response actions contemplated at an off-site facility. At the existing sites where Spectrum Brands has been notified of its status as a potentially responsible party, it is either premature to determine if Spectrum Brands’ potential liability, if any, will be material or it does not believe that its liability, if any, will be material. Spectrum Brands may be named as a potentially responsible party under CERCLA or similar state or foreign jurisdiction laws in the future for other sites not currently known to Spectrum Brands, and the costs and liabilities associated with these sites may have a material adverse effect on Spectrum Brands' business, financial condition and results of operations.

Compliance with various public health, consumer protection and other regulations applicable to Spectrum Brands' products and facilities could increase its cost of doing business and expose Spectrum Brands to additional requirements with which Spectrum Brands may be unable to comply.

Certain of Spectrum Brands' products sold through, and facilities operated under, each of its business segments are regulated by the EPA the FDA or other federal consumer protection and product safety agencies and are subject to the regulations such agencies enforce, as well as by similar state, foreign and multinational agencies and regulations. For example, in the U.S., all products containing pesticides must be registered with the EPA and, in many cases, similar state and foreign agencies before they can be manufactured or sold. Spectrum Brands' inability to obtain, or the cancellation of, any registration could have an adverse effect on its business, financial condition and results of operations. The severity of the effect would depend on which products were involved, whether another product could be substituted and whether its competitors were similarly affected. Spectrum Brands attempts to anticipate regulatory developments and maintain registrations of, and access to, substitute chemicals and other ingredients, but it may not always be able to avoid or minimize these risks.

As a distributor of consumer products in the U.S., certain of Spectrum Brands' products are also subject to the Consumer Product Safety Act, which empowers the U.S. Consumer Product Safety Commission (the "Consumer Commission") to exclude from the market products that are found to be unsafe or hazardous. Under certain circumstances, the Consumer Commission could require it to repair, replace or refund the purchase price of one or more of its products, or it may voluntarily do so. Any additional repurchases or recalls of Spectrum Brands' products could be costly to Spectrum Brands and could damage the reputation or the value of its brands. If Spectrum Brands is required to remove, or Spectrum Brands voluntarily removes its products from the market, its reputation or brands could be tarnished and it may have large quantities of finished products that could not be sold. Furthermore, failure to timely notify the Consumer Commission of a potential safety hazard can result in significant fines being assessed against Spectrum Brands. Additionally, laws regulating certain consumer products exist in some states, as well as in other countries in which Spectrum Brands sells its products, and more restrictive laws and regulations may be adopted in the future.

The Food Quality Protection Act ("FQPA") established a standard for food-use pesticides, which is that a reasonable certainty of no harm will result from the cumulative effect of pesticide exposures. Under the FQPA, the EPA is evaluating the cumulative effects from dietary and non-dietary exposures to pesticides. The pesticides in certain of Spectrum Brands' products that are sold through the Home and Garden Business continue to be evaluated by the EPA as part of this program. It is possible that the EPA or a third party active ingredient registrant may decide that a pesticide Spectrum Brands uses in its products will be limited or made unavailable to Spectrum Brands. Spectrum Brands cannot predict the outcome or the severity of the effect of the EPA's continuing evaluations of active ingredients used in its products.

In addition, the use of certain pesticide products that are sold through Spectrum Brands' Home and Garden Business may, among other things, be regulated by various local, state, federal and foreign environmental and public health agencies. These regulations may require that only certified or professional users apply the product, that users post notices on properties where products have been or will be applied or that certain ingredients may not be used. Compliance with such public health regulations could increase Spectrum Brands' cost of doing business and expose Spectrum Brands to additional requirements with which it may be unable to comply.

Any failure to comply with these laws or regulations, or the terms of applicable environmental permits, could result in Spectrum Brands incurring substantial costs, including fines, penalties and other civil and criminal sanctions or the prohibition of sales of its pest control products. Environmental law requirements, and the enforcement thereof, change frequently, have tended to become more stringent over time and could require Spectrum Brands to incur significant expenses.

Most federal, state and local authorities require certification by Underwriters Laboratory, Inc. ("UL"), an independent, not-for-profit corporation engaged in the testing of products for compliance with certain public safety standards, or other safety regulation certification prior to marketing electrical appliances. Foreign jurisdictions also have regulatory

authorities overseeing the safety of consumer products. Spectrum Brands’ products may not meet the specifications required by these authorities. A determination that any of its products are not in compliance with these rules and regulations could result in the imposition of fines or an award of damages to private litigants.
Public perceptions that some of the products Spectrum Brands produces and markets are not safe could adversely affect Spectrum Brands.
On occasion, Spectrum Brands’ customers have alleged that some products failed to perform up to expectations or have caused damage or injury to individuals or property. Public perception that any of its products are not safe, whether justified or not, could impair Spectrum Brands’ reputation, damage its brand names and have a material adverse effect on its business, financial condition and results of operations. In addition, Spectrum Brands relies on certain third party trademarks, brand names and logos which it does not have exclusive use of. Public perception that any such third party trademarks, brand names and logos used by Spectrum

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Brands are not safe, whether justified or not, could have a material adverse effect on Spectrum Brands' business, financial condition and results of operations.

If Spectrum Brands is unable to negotiate satisfactory terms to continue existing or enter into additional collective bargaining agreements, Spectrum Brands may experience an increased risk of labor disruptions and its results of operations and financial condition may suffer.

Approximately 16% of Spectrum Brands' total labor force is covered by collective bargaining agreements. There are 4 collective bargaining agreements that will expire during its fiscal year ending September 30, 2016, which cover approximately 60% of the labor force under collective bargaining agreements, or approximately 10% of Spectrum Brands' total labor force. While Spectrum Brands currently expects to negotiate continuations to the terms of these agreements, there can be no assurances that it will be able to obtain terms that are satisfactory to it or otherwise to reach agreement at all with the applicable parties. In addition, in the course of its business, Spectrum Brands may also become subject to additional collective bargaining agreements. These agreements may be on terms that are less favorable than those under its current collective bargaining agreements. Spectrum Brands' increased exposure to collective bargaining agreements, whether on terms more or less favorable than its existing collective bargaining agreements, could adversely affect the operation of its business, including through increased labor expenses. While it intends to comply with all collective bargaining agreements to which it is subject, there can be no assurances that Spectrum Brands will be able to do so and any noncompliance could subject it to disruptions in its operations and materially and adversely affect its results of operations and financial condition.

Significant changes in actual investment return on pension assets, discount rates and other factors could affect Spectrum Brands' results of operations, equity and pension contributions in future periods.

Spectrum Brands' results of operations may be positively or negatively affected by the amount of income or expense it records for its defined benefit pension plans. U.S. GAAP requires that Spectrum Brands calculate income or expense for the plans using actuarial valuations. These valuations reflect assumptions about financial markets and other economic conditions, which may change based on changes in key economic indicators. The most significant assumptions Spectrum Brands uses to estimate pension income or expense are the discount rate and the expected long-term rate of return on plan assets. In addition, Spectrum Brands is required to make an annual measurement of plan assets and liabilities, which may result in a significant change to equity. Although pension expense and pension funding contributions are not directly related, key economic factors that affect pension expense would also likely affect the amount of cash Spectrum Brands would contribute to pension plans as required under ERISA.

If Spectrum Brands' goodwill, indefinite-lived intangible assets or other long-term assets become impaired, Spectrum Brands will be required to record additional impairment charges, which may be significant.

A significant portion of Spectrum Brands' long-term assets consist of goodwill, other indefinite-lived intangible assets and finite-lived intangible assets recorded as a result of past acquisitions as well as through fresh start reporting. Spectrum Brands does not amortize goodwill and indefinite-lived intangible assets, but rather reviews them for impairment on a periodic basis or whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Spectrum Brands considers whether circumstances or conditions exist which suggest that the carrying value of its goodwill and other long-lived intangible assets might be impaired. If such circumstances or conditions exist, further steps are required in order to determine whether the carrying value of each of the individual assets exceeds its fair value. If analysis indicates that an individual asset's carrying value does exceed its fair value, the next step is to record a loss equal to the excess of the individual asset's carrying value over its fair value.

The steps required by U.S. GAAP entail significant amounts of judgment and subjectivity. Events and changes in circumstances that may indicate that there may be an impairment and which may indicate that interim impairment testing is necessary include, but are not limited to: strategic decisions to exit a business or dispose of an asset made in response to changes in economic, political and competitive conditions; the impact of the economic environment on the customer base and on broad market conditions that drive valuation considerations by market participants; Spectrum Brands' internal expectations with regard to future revenue growth and the assumptions Spectrum Brands makes when performing impairment reviews; a significant decrease in the market price of Spectrum Brands' assets; a significant adverse change in the extent or manner in which Spectrum Brands' assets are used; a significant adverse change in legal factors or the business climate that could affect Spectrum Brands' assets; an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset; and significant changes in the cash flows associated with an asset. As a result of such circumstances, Spectrum Brands may be required to record a significant charge to earnings in its financial statements during the period in which any impairment of its goodwill, indefinite-lived intangible assets or other long-term assets is determined. Any such impairment charges could have a material adverse effect on Spectrum Brands' business, financial condition and operating results.

If Spectrum Brands is unable to protect the confidentiality of its proprietary information and know-how, the value of Spectrum Brands' technology, products and services could be harmed significantly.

Spectrum Brands relies on trade secrets, know-how and other proprietary information in operating its business. If this information is not adequately protected, then it may be disclosed or used in an unauthorized manner. To the extent that consultants, key

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employees or other third parties apply technological information independently developed by them or by others to its proposed products, disputes may arise as to the proprietary rights to such information, which may not be resolved in Spectrum Brands' favor. The risk that other parties may breach confidentiality agreements or that Spectrum Brands' trade secrets become known or independently discovered by competitors, could harm Spectrum Brands by enabling its competitors, who may have greater experience and financial resources, to copy or use Spectrum Brands' trade secrets and other proprietary information in the advancement of their products, methods or technologies. The disclosure of Spectrum Brands' trade secrets would impair its competitive position, thereby weakening demand for its products or services and harming Spectrum Brands' ability to maintain or increase its customer base.

Significant costs have been incurred and are expected to be incurred in connection with the consummation of recent and future business acquisitions and the integration of such acquired businesses with Spectrum Brands into a combined company, including legal, accounting, financial advisory and other costs.

Spectrum Brands expects to incur one-time costs in connection with integrating Spectrum Brands' operations, products and personnel and those of the businesses Spectrum Brands acquires into a combined company, in addition to costs related directly to completing such acquisitions. Spectrum Brands would expect similar costs to be incurred with any future acquisition. These costs may include expenditures for:

- employee redeployment, relocation or severance;
- integration of operations and information systems;
- combination of research and development teams and processes; and
- reorganization or closures of facilities.

In addition, Spectrum Brands expects to incur a number of non-recurring costs associated with combining its operations with those of acquired businesses. Additional unanticipated costs may yet be incurred as Spectrum Brands integrates its business with acquired businesses. Although Spectrum Brands expects that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of its operations with those of acquired businesses, may offset incremental transaction and transaction-related costs over time, this net benefit may not be achieved in the near term. Additionally, while Spectrum Brands expects to benefit from leveraging distribution channels and brand names among Spectrum Brands and its acquired businesses, Spectrum Brands cannot assure you that it will achieve such benefits.

Spectrum Brands may not realize the anticipated benefits of, and synergies from, its business acquisitions and may become responsible for certain liabilities and integration costs as a result.

Business acquisitions involve the integration of new businesses that have previously operated independently from Spectrum Brands. The integration of Spectrum Brands' operations with those of acquired businesses is frequently expected to result in financial and operational benefits, including increased top line growth, margins, revenues and cost savings and be accretive to earnings per share, earnings before interest, taxes, depreciation and amortization and free cash flow before synergies. There can be no assurance, however, regarding when or the extent to which Spectrum Brands will be able to realize these increased top line growth, margins, revenues, cost savings or accretions to earnings per share, earnings before interest, taxes, depreciation and amortization or free cash flow or other benefits. Integration may also be difficult, unpredictable, and subject to delay because of possible company culture conflicts and different opinions on technical decisions and product roadmaps. Spectrum Brands will often be required to integrate or, in some cases, replace, numerous systems, including those involving management information, purchasing, accounting and finance, sales, billing, employee benefits, payroll and regulatory compliance, many of which may be dissimilar. In some instances, Spectrum Brands and certain acquired businesses have served the same customers, and some customers may decide that it is desirable to have additional or different suppliers. Difficulties associated with the integration of acquired businesses could have a material adverse effect on Spectrum Brands' business.

Spectrum Brands may also acquire partial or full ownership in businesses or may acquire rights to market and distribute particular products or lines of products. The acquisition of a business or the rights to market specific products or use specific product names may involve a financial commitment by Spectrum Brands, either in the form of cash or equity consideration. In the case of a new license, such commitments are usually in the form of prepaid royalties and future minimum royalty payments. There is no guarantee that Spectrum Brands will acquire businesses or product distribution rights that will contribute positively to its earnings. Anticipated synergies may not materialize, cost savings may be less than expected, sales of products may not meet expectations and acquired businesses may carry unexpected liabilities.

In addition, in connection with business acquisitions, Spectrum Brands has assumed, and may assume in connection with future acquisitions, certain potential liabilities. To the extent such liabilities are not identified by Spectrum Brands or to the extent the indemnifications obtained from third parties are insufficient to cover such liabilities, these liabilities could have a material adverse effect on Spectrum Brands' business.

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Integrating Spectrum Brands' business with acquired businesses may divert its management's attention away from operations.
Successful integration of acquired businesses' operations, products and personnel with Spectrum Brands may place a significant burden on its management and other internal resources. The diversion of management's attention, and any difficulties encountered in the transition and integration process, could harm its business, financial condition and operating results.
General customer uncertainty related to Spectrum Brands' business acquisitions could harm Spectrum Brands.
Spectrum Brands' customers may, in response to the announcement or consummation of a business acquisition, delay or defer purchasing decisions. If Spectrum Brands' customers delay or defer purchasing decisions, its revenues could materially decline or any anticipated increases in revenue could be lower than expected.
Spectrum Brands is required to supply certain products and services to Stanley Black & Decker and its subsidiaries pursuant to the terms of certain supply agreements for a period of time after the completion of the HHI Business acquisition. Our provision of products and services under these agreements require us to dedicate resources of the HHI Business and may result in unfavorable results to us.
Certain products and services currently used by Stanley Black and Decker are produced and provided using equipment of the HHI Business which includes the acquired Tong Lung Metal Industry Co. Ltd. (the "TLM Business") that Spectrum Brands acquired or certain equipment belonging to Stanley Black and Decker and its subsidiaries that will continue to be located for a period of time after the completion of the HHI Business acquisition at facilities operated by the HHI Business and the TLM Business and maintained by Spectrum Brands pursuant to certain specifications. Spectrum Brands and Stanley Black and Decker entered into supply agreements (each, a "Supply Agreement") whereby Spectrum Brands provides Stanley Black and Decker and its subsidiaries with certain of these products and services for a period of time. This requires Spectrum Brands to dedicate resources of the HHI Business and the TLM Business towards the provision of these products and services and may result in unfavorable results to Spectrum Brands. These Supply Agreements are an accommodation to Stanley Black and Decker and its subsidiaries as part of the HHI Business acquisition, and the pricing of the products and services is on terms more favorable to Stanley Black and Decker and its subsidiaries than it would be in the ordinary course of business.
Spectrum Brands faces significant risks from the AAG acquisition similar to risks generally associated with its acquisition and expansion strategy.
The AAG acquisition subjects Spectrum Brands to significant risks generally associated with its acquisition and expansion strategy. Significant costs have been incurred and are expected to be incurred in connection with the AAG acquisition and Spectrum Brands' integration of AAG with its business, including legal, accounting, financial advisory and other costs. Spectrum Brands may also not realize the anticipated benefits of, and synergies from, the AAG acquisition and will be responsible for certain liabilities and integration costs as a result of the AAG acquisition. As a result of the AAG acquisition and other acquisitions, Spectrum Brands may also not be able to retain key personnel or recruit additional qualified personnel, which could require Spectrum Brands to incur substantial additional costs. Each of these general risks for acquisition and expansion activities, which are described in more detail herein, could result in the AAG acquisition having a material adverse effect on Spectrum Brands' business.
Risks Related to FGL's and Front Street's Businesses
The FGL Merger is subject to various closing conditions, including regulatory approvals
The completion of the FGL Merger is subject to various closing conditions, including, but not limited to, (1) the information statement to be filed by FGL with the SEC in connection with the FGL Merger shall have been cleared by the SEC and shall have been sent to stockholders of FGL (in accordance with Regulation 14C under the Exchange Act at least 20 days prior to the closing), (2) the absence of any law or order enacted, issued or enforced that is in effect and that makes the consummation of the FGL Merger illegal, prevents, prohibits, restrains or enjoins the consummation of the FGL Merger and (3) obtaining the requisite approvals from the IID, NYDFS, Vermont Department of Financial Regulation, China Insurance Regulatory Commission and the Committee on Foreign Investment in the United States. A number of the closing conditions are outside of FGL's control and it cannot predict with certainty whether all of the required closing conditions will be satisfied or waived or if other uncertainties may arise. In addition, regulators could impose additional requirements or obligations as conditions for their approvals,

which may be burdensome. Despite FGL's best efforts, FGL may not be able to satisfy the various closing conditions or obtain the necessary waivers or approvals in a timely fashion or at all, in which case the FGL Merger could be prevented or delayed.

Failure to timely complete the FGL Merger could adversely impact FGL's stock price, business, financial condition and results of operations

A failure to complete the FGL Merger on a timely basis or at all could result in negative publicity and cause the price of FGL's common stock to decline, in particular because FGL's current stock price reflects a market assumption that the FGL Merger will occur. In addition, as a result of the announcement of the FGL Merger Agreement, trading in FGL's stock has increased substantially. If the FGL Merger is not consummated, the investment goals of FGL's stockholders may be materially different than those of FGL's stockholders on a pre-Merger announcement basis. In addition, FGL will remain liable for significant transaction costs

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that will be payable even if the FGL Merger is not completed and could also be required to pay a termination fee to Anbang in certain specific circumstances.

The FGL Merger and operating restrictions contained in the FGL Merger Agreement could adversely affect FGL's business and operations

The FGL Merger and certain interim operating covenants in the FGL Merger Agreement that govern the conduct of FGL's business during the pendency of the FGL Merger could cause disruptions to FGL's business and business relationships, which could have an adverse impact on FGL's results of operations, liquidity and financial condition. For example, the attention of FGL's management may be directed to Merger-related considerations, FGL's current and prospective employees may experience uncertainty about their future roles with FGL, which may adversely affect FGL's ability to retain and hire key personnel, and parties with which FGL has business relationships, including customers, potential customers and distributors, may experience uncertainty as to the future of such relationships and seek alternative relationships or seek to alter their present business relationships with FGL in a manner that negatively impacts FGL.

Shareholder litigation against FGL, its directors and/or Anbang could delay or prevent the FGL Merger and cause FGL to incur significant costs and expenses

Transactions such as the FGL Merger are often subject to lawsuits by shareholders. Conditions to the closing of the FGL Merger require that no law or order must have been enacted, issued or enforced and in effect, that would make the consummation of the FGL Merger illegal, prevent, prohibit, restrain or enjoin the consummation of the FGL Merger. FGL cannot provide assurance as to the outcome of any potential lawsuits, including the costs associated with defending the claims or any other liabilities that may be incurred in connection with the litigation or settlement of lawsuits.

FGL's and Front Street's results of operations and financial condition depend on the accuracy of a broad range of assumptions and estimates made by their respective management teams.

FGL and Front Street make certain assumptions and estimates regarding mortality, persistency, expenses, interest rates, tax liability, business mix, frequency of claims, contingent liabilities, investment performance and other factors related to their businesses and anticipated results. FGL and Front Street rely on these assumptions and estimates to determine the amounts of DAC and VOBA policy liabilities and accruals, future earnings and various components of their consolidated balance sheets. These assumptions are also used in making decisions crucial to the operation of their business, including the pricing of products and expense structures related to products. The calculations FGL and Front Street use to estimate various components of their balance sheets and consolidated statements of operations are necessarily complex and involve analyzing and interpreting large quantities of data. The assumptions and estimates required for these calculations involve judgment and by their nature are imprecise and subject to changes and revisions over time. These assumptions and estimates incorporate many factors, none of which can be predicted with certainty. To the extent their actual experience and changes in estimates differ from original estimates and assumptions, FGL's and Front Street's businesses, Consolidated Statements of Operations and financial condition may be materially adversely affected. Accordingly, their results may be adversely affected by changes resulting from implementing more sophisticated administrative systems and procedures that facilitate the calculation of more precise estimates.

FGL has minimal experience to date on policyholder behavior for its GMWB products which it began issuing in 2008; as a result, future experience could lead to significant changes in their assumptions. If emerging experience deviates from FGL's assumptions on GMWB utilization, it could have a significant effect on FGL's reserve levels and related results of operations. See Part I, Item I. "Business-Our Operating Subsidiaries-FGL-Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies and Estimates."

FGL's or Front Street's financial condition and results of operations could be adversely impacted if their assumptions regarding the fair value and future performance of their investments differ from actual experience.

FGL and Front Street make assumptions regarding the fair value and expected future performance of their investments. It is possible that actual values will differ from their assumptions. Such events could result in a material change in the value of their investments, business, operations and financial condition.

For example, expectations that FGL’s investments in RMBS and CMBS will continue to perform in accordance with their contractual terms are based on assumptions a market participant would use in determining the current fair value and considering the performance of the underlying assets. FGL has non-agency RMBS holdings of $2.2 billion as of September 30, 2015. It is possible that the collateral underlying these investments will not meet performance expectations and the lower performance levels may lead to adverse changes in the cash flows on FGL’s holdings of these types of securities. This could lead to potential future other than temporary impairments ("OTTI") within FGL’s portfolio of RMBS, CMBS, and ABS. In addition, expectations that FGL’s investments in corporate securities or debt obligations will continue to perform in accordance with their contractual terms are based on evidence gathered through FGL’s normal credit surveillance process. It is possible that issuers of corporate securities in which FGL has invested will perform worse than current expectations. Such events may lead FGL to recognize potential future OTTI within its portfolio of corporate securities. FGL recorded OTTI charges of approximately $81.4 million and $0.7 million for the fiscal years ended Fiscal 2015 and Fiscal 2014, respectively. It is also possible that unanticipated events would lead FGL to dispose of certain of those holdings and recognize the effects of any market movements in FGL's financial statements.

A financial strength ratings downgrade, potential downgrade, or any other negative action by a rating agency, could make FGL's product offerings less attractive and increase its cost of capital, and thereby could adversely affect FGL's financial condition and results of operations.

Various nationally recognized rating agencies review the financial performance and condition of insurers, including FGL's insurance subsidiaries, and publish their financial strength ratings as indicators of an insurer's ability to meet policyholder and contractholder obligations. These ratings are important to maintaining public confidence in FGL's products, its ability to market its products and its competitive position. Any downgrade or other negative action by a rating agency with respect to the financial strength ratings of FGL's insurance subsidiaries could have a materially adverse effect on FGL in many ways, including the following:

- adversely affecting relationships with distributors, IMOs and sales agents, which could result in reduction of sales;
- increasing the number or amount of policy lapses or surrenders and withdrawals of funds;
- requiring a reduction in prices for FGL's insurance products and services in order to remain competitive;
- adversely affecting FGL's ability to obtain reinsurance at a reasonable price, on reasonable terms or at all; and
- requiring FGL to collateralize reserves, balances or obligations under reinsurance and derivatives agreements.

Rating agencies assign ratings based upon several factors. While most of these factors relate to the rated company, some factors relate to the views of the rating agency, general economic conditions and circumstances outside the rated company's control. In addition, rating agencies use various models and formulas to assess the strength of a rated company, and from time to time rating agencies have, in their discretion, altered the models and may do so in the future in ways that negatively impact the financial strength ratings of FGL's insurance subsidiaries and make it more difficult to maintain or obtain comparable ratings going forward. As rating agencies continue to evaluate the financial services industry, it is possible that rating agencies will heighten the level of scrutiny that they apply to financial institutions, increase the frequency and scope of their credit reviews, request additional information from the companies that they rate and potentially adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. It is possible that the outcome of any such review of FGL would have additional adverse ratings consequences, which could have a material adverse effect on FGL's results of operations, financial condition and liquidity. FGL may need to take actions in response to changing standards or capital requirements set by any of the rating agencies which could cause FGL's business and operations to suffer. If the financial strength ratings of FGL's insurance subsidiaries are downgraded, FGL anticipates that its sales of new policies will be adversely impacted and that FGL could experience substantial surrenders of existing policies. In order to improve or maintain their financial strength ratings, FGL's insurance subsidiaries may limit the amount of dividends that they would otherwise pay to FGL. In that regard, FGL may, among other things, implement business strategies to improve the RBC ratio of FGL's insurance subsidiaries to a level anticipated by the rating agencies to maintain or improve FGL's current rating. If FGL is unable to achieve this level, FGL may limit dividend payments from FGL Insurance to the extent necessary. FGL cannot guarantee these measures will be successful, and if FGL Insurance fails to maintain such a target RBC ratio, its financial strength rating could suffer. FGL cannot predict what actions rating agencies may take in the future, and failure to improve or maintain current financial strength ratings could adversely affect FGL's financial condition and results of operations.

Following the announcement of the proposed FGL Merger, the rating organizations have undertaken a review of FGL's debt ratings and FGL's insurance company subsidiaries' financial strength ratings. The rating organizations may take various actions, positive or negative, and their actions may not be known until the FGL Merger closes.

FGH is required to maintain minimum ratings as a matter of routine practice under FGH's over-the-counter derivative agreements on forms promulgated by ISDA Under some ISDA agreements, FGH 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 FGH or the counterparty would be dependent on the market value of the underlying derivative contracts. FGH's current rating allows multiple counterparties the right to terminate ISDA agreements. As of September 30, 2015, the amount at risk for ISDA agreements which could be terminated based upon FGH's current ratings was $80.7 million, which equals the fair value to FGH of the open over-the-counter call option positions. The fair value of the call options can never decrease below zero. No ISDA agreements have been terminated, although the counterparties have reserved the right to terminate the ISDA agreements at any time. In certain transactions, FGH and the counterparty have entered into a collateral support agreement requiring either party to post collateral when the net exposures exceed predetermined thresholds. These thresholds vary by counterparty and credit rating. As of September 30, 2015 and 2014, $7.0 million and $188.0 million, respectively, of collateral was posted by FGH's counterparties. Accordingly, the maximum amount of loss due to credit risk that FGH were to incur if parties to the call options failed completely to perform according to the terms of the contracts was $73.7 million and $108.3 million at September 30, 2015 and 2014, respectively.

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Additionally, under certain insurance reserve financing arrangements, if FGH were to take certain actions without the counterparties consent, and such actions resulted in a specified financial strength ratings downgrade, FGH would be in default. See Part II, Item 7A."Quantitative and Qualitative Disclosures about Market Risk-Credit Risk and Counterparty Risk-FGL."

The amount of regulatory capital that FGL's and Front Street's insurance subsidiaries have and the amount of statutory capital that they must hold to maintain their financial strength ratings and meet other requirements can vary significantly from time to time due to a number of factors outside of their control.

FGL's insurance subsidiaries are subject to regulations that provide minimum capitalization requirements based on RBC formulas for life insurance and reinsurance companies that establish capital requirements relating to insurance, business, asset, interest rate, and certain other risks.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors, most of which are outside of FGL's control, including, but not limited to, the following:

- the amount of statutory income or losses generated by their insurance subsidiaries (which itself is sensitive to equity market and credit market conditions);
- the amount of additional capital their insurance subsidiaries must hold to support business growth;
- changes in reserve requirements applicable to their insurance subsidiaries;
- their ability to access capital markets to provide reserve relief;
- changes in equity market levels;
- the value of certain fixed-income and equity securities in their investment portfolios;
- changes in the credit ratings of investments held in their portfolios;
- the value of certain derivative instruments;
- changes in interest rates;
- credit market volatility;
- changes in consumer behavior; and
- changes to the RBC formulas and interpretation of the NAIC instructions with respect to RBC calculation methodologies.

The financial strength ratings of FGL's insurance subsidiaries are significantly influenced by their statutory surplus amounts and capital adequacy ratios. Rating agencies may also implement changes to their internal models, which differ from the RBC capital model, that have the effect of increasing or decreasing the amount of statutory capital FGL's insurance subsidiaries must hold in order to maintain their current ratings. In addition, rating agencies may downgrade the investments held in FGL's portfolio, which could result in a reduction of FGL's capital and surplus and its RBC ratio.

In extreme equity market declines, the amount of additional statutory reserves, FGL's insurance subsidiaries are required to hold for fixed indexed products may decrease at a rate less than the rate of change of the market value of the invested assets. This mismatch could result in a reduction of the capital, surplus or RBC ratio of FGL's insurance subsidiaries. To the extent that an insurance subsidiary's RBC ratios are deemed to be insufficient, FGL may seek to take actions either to increase the capitalization of the insurer or to reduce the capitalization requirements. If FGL is unable to accomplish such actions, the rating agencies may view this as a reason for a ratings downgrade.

While the amount of statutory reserves is not directly affected by changes in interest rates, additional statutory reserves may be required as the result of an asset adequacy analysis, and this analysis of cash flow testing is altered by rising or falling interest rates and widening credit spreads.

The failure of any of FGL's insurance subsidiaries to meet its applicable RBC regulatory capital requirements or minimum capital and surplus requirements could subject it to further examination or corrective action imposed by insurance regulators, including limitations on its ability to write additional business, supervision by regulators or seizure or liquidation. Any corrective action imposed could have a material adverse effect on FGL's business, results of operations and financial condition. A decline in RBC ratios also limits the ability of an insurance subsidiary to make dividends or distributions to FGL and could be a factor in causing rating agencies to downgrade the insurer's financial strength ratings, which could have a material adverse effect on FGL's business, results of operations and

financial condition.
FGL’s businesses are highly regulated and subject to numerous legal restrictions and regulations.
State Regulation
FGL’s businesses are subject to government regulation in each of the states in which they conduct business. Such regulation is vested in state agencies having broad administrative and discretionary, authority with respect to many aspects of FGL’s businesses which may include, among other things, premium rates and increases thereto, underwriting practices, reserve requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, acquisitions, mergers and capital adequacy, and is concerned primarily with the protection of policyholders and other customers rather than shareholders. At any

given time, FGL and its insurance subsidiaries may be the subject of a number of ongoing financial or market conduct examinations, audits or inquiries. From time to time, regulators raise issues during such examinations or audits that could, if determined adversely, have a material impact on FGL's businesses.

FGL has received inquiries from a number of state regulatory authorities regarding its use of the U.S. Social Security Administration's Death Master File ("Death Master File") and compliance with state claims practices regulations and unclaimed property or escheatment laws. The NYDFS 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. Other states have enacted laws which will impose requirements on insurers to periodically compare their in-force life insurance policies and annuities against the Death Master File or similar databases, investigate any identified potential matches to confirm the death of the insured and determine whether benefits are due and attempt to locate the beneficiaries of any benefits that are due or, if no beneficiary can be located, escheat the benefit to the state as unclaimed property. FGL has received notice of escheatment audits from several states. FGL has filed suit in federal and state court to challenge the audit policies of the California controller and the applicability of California's unclaimed property laws to FGL generally. It is possible that these requirements will result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws or administrative penalties and expenses. While FGL believes that it has established sufficient reserves with respect to these matters, it is possible that third parties could dispute these amounts and additional payments or additional unreported claims or liabilities could be required or identified given the ongoing regulatory developments, the effects of which could be significant and could have a material adverse effect on FGL's results of operations in any one period.

State insurance departments conduct periodic examinations of the books and records, financial reporting, policy and rate filings, market conduct and business practices of insurance companies domiciled in their states, generally once every three to five years. The regulator in FGL Insurance's previous state of domicile, MIA completed a routine financial examination of FGL Insurance for the three-year period ended December 31, 2012. The NYDFS completed a routine financial examination of FGL NY Insurance for the three-year periods ended December 31, 2009 and is completing December 31, 2012, and the Vermont Department of Financial Regulation completed a routine financial examination of Raven Re for the period from April 7, 2011 (commencement of business) through December 31, 2012. FGL Insurance is currently the subject of ten ongoing market conduct examinations or inquiries in various states. While FGL Insurance does not believe that any of the current market conduct examinations it is subject to will result in any fines or remediation orders that will be material to its business, market conduct examinations can result in monetary fines or remediation and generally require FGL Insurance to devote significant resources to the management of such examinations. As a result of its re-domestication to Iowa, FGL Insurance will become subject to financial and market conduct examinations by the IID, the primary regulatory authority for Iowa domestic life insurance companies.

Front Street is regulated by the Cayman Islands Monetary Authority ("CIMA"). CIMA has statutory powers that enable it to use its discretion to require Front Street to conducts its operations in accordance with general or specific conditions which may be imposed by CIMA or may be agreed between CIMA and Front Street. Generally, such matters are set out in the business plan which Front Street files with CIMA and, amongst others, includes reference to the risks assumed and retained by Front Street, the premium finding and capitalization levels, and Front Street's investment policies.

NAIC

Although FGL's business is subject to regulation in each state in which FGL conducts business, in many instances the state regulatory models emanate from the NAIC. State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or interpretations thereof, are often made for the benefit of the consumer and at the expense of the insurer and, thus, could have a material adverse effect on FGL's business, operations and financial condition. FGL is also subject to the risk that compliance with any particular regulator's interpretation of a legal or accounting issue may not result in compliance with another regulator's interpretation of the same issue, particularly when compliance is judged in hindsight. Under insurance guaranty fund laws in most states, insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. FGL cannot predict the

amount or timing of any such future assessments. There is an additional risk that any particular regulator's interpretation of a legal or accounting issue may change over time to FGL's detriment, or that changes to the overall legal or market environment, even absent any change of interpretation by a particular regulator, may cause FGL to change its views regarding the actions FGL needs to take from a legal risk management perspective, which could necessitate changes to FGL's practices that may, in some cases, limit its ability to grow and improve profitability.
Some of the NAIC pronouncements, particularly as they affect accounting issues, take effect automatically in the various states without affirmative action by the states. Statutes, regulations and interpretations may be applied with retroactive impact, particularly in areas such as accounting and reserve requirements. Also, regulatory actions with prospective impact can potentially have a significant impact on currently sold products. The NAIC continues to work to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves with respect to which it may take action as early as late 2015. Additionally, various statutory accounting guidance is being evaluated, including investment value of insurance subsidiaries.
Both the NAIC and certain state insurance regulators have in recent months announced intentions to review the trend of hedge

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fund and private equity acquisitions of life insurance and annuity companies. Such reviews are ongoing and preliminary and they may result in stricter regulatory scrutiny or additional regulatory restrictions that could be adverse to FGL's ability to grow through acquisitions or to its business generally.

Federal Regulation

FGL may also be subject to regulation by the DOL when providing a variety of products and services to employee benefit plans governed by ERISA. In April 2015, the DOL released a notice of proposed rulemaking to revamp the ERISA conflict of interest rules. The proposed rule would impose fiduciary duties on anyone getting paid for advice related to a retirement investment decision, which would include insurance agents. In addition, FGL became aware that in April 2015, U.S. Senator Elizabeth Warren sent letters to fifteen annuity providers, which inquired about perquisites and other incentives they give to third-party brokers, dealers and agents who sell their products. FGL did not receive such a letter, however, FGL cannot predict the outcome of Ms. Warren's inquiry. Severe penalties are imposed for breaches of duty under ERISA, and FGL cannot predict whether the proposed DOL rule will ultimately be adopted, what changes may be made to it prior to adoption, or how the rule would impact FGL's business if it were adopted.

In recent years, the SEC and state securities regulators have questioned whether FIAs, such as those sold by FGL, should be treated as securities under the federal and state securities laws rather than as insurance products exempted from such laws. Treatment of these products as securities would require additional registration and licensing of these products and the agents selling them, as well as cause FGL to seek additional marketing relationships for these products, any of which may impose significant restrictions on FGL's ability to conduct operations as currently operated. Under the Dodd-Frank Act, annuities that meet specific requirements, including requirements relating to certain state suitability rules, are specifically exempted from being treated as securities by the SEC. FGL expects that the types of FIAs FGL Insurance and FGL NY Insurance sell will meet these requirements and therefore are exempt from being treated as securities by the SEC and state securities regulators. However, there can be no assurance that federal or state securities laws or state insurance laws and regulations will not be amended or interpreted to impose further requirements on FIAs.

Dodd-Frank Act

In addition, the Dodd-Frank Act makes sweeping changes to the regulation of financial services entities, products and markets. Certain provisions of the Dodd-Frank Act are or may become applicable to FGL, its competitors or those entities with which they do business, including, but not limited to:

- the establishment of federal regulatory authority over derivatives;
- the establishment of consolidated federal regulation and resolution authority over systemically important financial services firms;
- the establishment of the Federal Insurance Office;
- changes to the regulation of broker dealers and investment advisers;
- changes to the regulation of reinsurance;
- changes to regulations affecting the rights of shareholders;
- the imposition of additional regulation over credit rating agencies;
- the imposition of concentration limits on financial institutions that restrict the amount of credit that may be extended to a single person or entity; and
- the clearing of derivative contracts.

Numerous provisions of the Dodd-Frank Act require the adoption of implementing rules or regulations. In addition, the Dodd-Frank Act mandates multiple studies, which could result in additional legislation or regulation applicable to the insurance and reinsurance industry, FGL, its competitors or those entities with which they do business, which may impact FGL and Front Street by, among other things:

- placing FGL at a competitive disadvantage relative to their competition or other financial services entities;
- changing the competitive landscape of the financial services sector or the insurance or reinsurance industry;
- making it more expensive for FGL to conduct its business;
- requiring FGL to reallocate significant company resources to government affairs;
- increasing FGL's legal and compliance-related activities and the costs associated therewith; or

- otherwise having a material adverse effect on the overall business climate, as well as FGL's financial condition and results of operations.

Until various studies are completed and final regulations are promulgated pursuant to the Dodd-Frank Act, the full impact of the Dodd-Frank Act on investments, investment activities and insurance and annuity products of FGL Insurance and FGL NY Insurance remains unclear.

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Other Regulation
Other types of regulation that could affect FGL or Front Street include insurance company investment laws and regulations, state adopted statutory accounting principles, antitrust laws, minimum solvency requirements, federal privacy laws, insurable interest laws and federal anti-money laundering and anti-terrorism laws.
Compliance with applicable laws and regulations is time-consuming and personnel-intensive, and changes in laws and regulations may materially increase the cost of compliance and other expenses of doing business. There are a number of risks that may arise where applicable regulations may be unclear, subject to multiple interpretations or under development or where regulations may conflict with one another, where regulators revise their previous guidance or courts overturn previous rulings, which could result in FGL's or Front Street's failure to meet applicable standards. Regulators and other authorities have the power to bring administrative or judicial proceedings against FGL and Front Street, which could result, among other things, in suspension or revocation of FGL's or Front Street's licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action, which could materially harm FGL's or Front Street's results of operations and financial condition. If FGL or Front Street fail to address, or appear to fail to address, appropriately any of these matters, FGL's or Front Street's reputation could be harmed and FGL or Front Street could be subject to additional legal risk, which could increase the size and number of claims and damages asserted against them or subject them to enforcement actions, fines and penalties. See Part I, Item I, "Business-Our Operating Subsidiaries-FGL-Regulation" for further discussion of the impact of regulations on FGL's and Front Street's business.
FGL and Front Street cannot predict what form any future changes in these or other areas of regulation affecting the insurance and reinsurance industry might take or what effect, if any, such proposals might have on FGL or Front Street if enacted into law. In addition, because FGL's and Front Street's activities are relatively concentrated in a small number of lines of business, any change in law or regulation affecting one of those lines of business could have a disproportionate impact on FGL or Front Street as compared to other more diversified insurance companies.
Financial services companies are frequently the targets of litigation, including class action litigation, which could result in substantial judgments.
FGL and Front Street, like other financial services companies, are involved in litigation and arbitration in the ordinary course of business. Although FGL and Front Street do not believe that the outcome of any such litigation or arbitration will have a material adverse effect on their financial condition, it is possible that their results of operations and cash flows could be materially affected by an unfavorable outcome. More generally, FGL and Front Street operate in industries in which various practices are subject to scrutiny and potential litigation, including class actions. In addition, FGL sells its products through IMOs, whose activities may be difficult to monitor. Civil jury verdicts have been returned against insurers and other financial services companies involving sales, underwriting practices, product design, product disclosure, administration, denial or delay of benefits, charging excessive or impermissible fees, recommending unsuitable products to customers, breaching fiduciary or other duties to customers, refund or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or other persons with whom the insurer does business, payment of sales or other contingent commissions and other matters. Such lawsuits can result in substantial judgments that are disproportionate to the actual damages, including material amounts of punitive non-economic compensatory damages. In some states, juries, judges and arbitrators have substantial discretion in awarding punitive and non-economic compensatory damages, which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class action and other lawsuits, financial services companies have made material settlement payments.
FGL's reinsurers, including Wilton Re and Front Street Cayman, could fail to meet assumed obligations, increase their rates, or become subject to adverse developments that could materially adversely affect FGL's business, financial condition and results of operations.
FGL's insurance subsidiaries cede material amounts of insurance and transfer related assets and certain liabilities to other insurance companies through reinsurance. For example, a material amount of reinsured liabilities are concentrated with Wilton Re and Front Street Cayman. As of September 30, 2015, the amount recoverable from Wilton Re and Front Street Cayman was $1,493.0 million and $1,226.7 million, respectively. Given FGL's significant

concentration of reinsurance with Wilton Re, if Wilton Re fails to perform its obligations under the various reinsurance treaties, such failure could have a material impact on FGL's financial position. See Part I, Item 1. "Business-Our Operating Subsidiaries-FGL-Reinsurance-Wilton Re Transaction". However, notwithstanding the transfer of related assets and certain liabilities, FGL remains liable with respect to ceded insurance should any reinsurer fail to meet the obligations assumed. Accordingly, FGL bears credit risk with respect to its reinsurers. The failure, insolvency, inability or unwillingness of any reinsurer to pay under the terms of reinsurance agreements with FGL could materially adversely affect FGL's business, financial condition and results of operations. To mitigate the counterparty risk for the Front Street Cayman transaction, the assets are held on FGL Insurance's balance and are used as collateral in the event of a failure. For Wilton Re, A+ rated from Fitch, FGL monitors the credit rating. During 2014 Wilton Re announced their purchase by Canadian Pension Plan Investment Board, ("CCIB"), an AAA rated organization. With the capital resources of CCIB behind Wilton Re, FGL believes the counterparty risk is low. See Part I, Item 1A."Business-Our Operating Subsidiaries-FGL-Reinsurance-Wilton Re Transaction".

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FGL's ability to compete is dependent on the availability of reinsurance or other substitute financing solutions, both of which could involve the use of reinsurance affiliates referred to generally as "captives". Premium rates charged by FGL are based, in part, on the assumption that reinsurance will be available at a certain cost. Under certain reinsurance agreements, the reinsurer may increase the rate it charges FGL for the reinsurance. Therefore, if the cost of reinsurance were to increase, if reinsurance were to become unavailable on commercially reasonable terms or at all, if alternatives to reinsurance were not available to FGL, if the use of captives were materially restricted through regulation, including certain general proposals currently under consideration by the NAIC, FGL's business, financial condition and results of operations could be materially adversely affected.

The credit for reinsurance taken by FGL's insurance subsidiaries under offshore reinsurance agreements is, under certain conditions, dependent upon the offshore reinsurers ability to obtain and provide sufficient qualifying assets in a qualifying trust or qualifying letters of credit issued by qualifying lending banks. The cost of letters of credit, when available, continues to be very expensive in the current economic environment. Loss of reserve credit by an insurance subsidiary would require it to establish additional reserves and would result in a decrease in the level of its capital, which could have a material adverse effect on FGL's profitability, results of operations and financial condition.

In recent years, access to reinsurance has become more costly for members of the insurance industry, including FGL. In addition, the number of life reinsurers has decreased as the reinsurance industry has consolidated. The decreased number of participants in the life reinsurance market resulted in increased concentration of risk for insurers, including FGL. If the reinsurance market further contracts, FGL's ability to continue to offer FGL's products on terms favorable to it could be negatively impacted, resulting in adverse consequences to FGL's business, operations and financial condition.

In addition, reinsurers are facing many challenges regarding illiquid credit or capital markets, investment downgrades, rating agency downgrades, deterioration of general economic conditions and other factors negatively impacting the financial services industry generally. If such events cause a reinsurer to fail to meet its obligations, FGL's business, financial condition and results of operations could be materially adversely affected.

Restrictions on FGL's ability to use captive reinsurers could adversely impact its competitive position and results of operations.

The NAIC and state insurance regulators continue to review life insurance companies' use of affiliated captive reinsurers or off-shore entities. On June 4, 2014, Rector & Associates, a consulting firm commissioned by the NAIC, presented a revised report (the "Rector Report") to the Principle-Based Reserving Implementation Task Force of the NAIC which proposes a new regulatory framework for captives assuming term life insurance ("XXX") or universal life insurance with secondary guarantees ("AXXX") business, and recommends, among other things, placing limitations on the types of assets that may be used to finance reserves associated with XXX and AXXX business and making an individual state's adoption of the new regulations contemplated by the report an NAIC accreditation standard. On August 17, 2014, the NAIC Executive (EX) Committee adopted the regulatory framework proposed by the Rector Report, including recommendations to have various NAIC technical subgroups propose regulations and guidelines to implement the new framework. These technical working groups are in various stages of developing and proposing regulations and guidelines. On October 9, 2014, the NAIC's Principle-Based Reserving Implementation Task Force voted to expose for comment a new Actuarial Guideline (AG48) designed to implement many of the recommendations in the Rector Report related to the amount of assets that may be supported by different asset classes in connection with certain transactions involving captive reinsurance companies.

If state insurance regulators restrict the use of captive reinsurers or if FGL otherwise is unable to continue to use captive reinsurers in the future, FGL's ability to write certain products, to manage the associated risks and to deploy capital efficiently, could be adversely affected, or FGL may need to increase prices on those products, which could adversely impact its competitive position and its results of operations.

Interest rate fluctuations and withdrawal demands in excess of FGL's and Front Street's assumptions could negatively affect their business, financial condition and results of operations.

FGL and Front Street offer certain products that allow policyholders to withdraw their funds under defined circumstances. In order to meet such funding obligations, FGL and Front Street manage their liabilities and configure their investment portfolios so as to provide and maintain sufficient liquidity to support expected withdrawal demands and contract benefits and maturities. However, in order to provide necessary long-term returns, a certain portion of FGL’s and Front Street’s assets are relatively illiquid. There can be no assurance that withdrawal demands will match FGL’s and Front Street’s estimation of withdrawal demands. As interest rates increase, FGL and Front Street are exposed to the risk of financial disintermediation through a potential increase in the number of withdrawals. Disintermediation risk refers to the risk that policyholders may surrender their contracts in a rising interest rate environment, requiring FGL and Front Street to liquidate assets in an unrealized loss position. If FGL and Front Street experience unexpected withdrawal activity, whether as a result of interest rate movements financial strength downgrades or otherwise, it could exhaust its liquid assets and be forced to liquidate other less liquid assets, possibly at a loss or on other unfavorable terms, which could have a material adverse effect on FGL’s and Front Street’s business, financial condition and results of operations. Additionally, FGL and Front Street may experience spread compression, and a loss of anticipated earnings, if credited interest rates are increased on renewing contracts in an effort to decrease or manage withdrawal activity.

Interest rates are subject to volatility and fluctuations. For the past several years interest rates have trended downwards to historically low levels. In order to meet its policy and contractual obligations, FGL and Front Street must earn a sufficient return on its invested assets. A prolonged period of historically low rates or significant changes in interest rates could expose FGL and Front Street to the risk of not achieving sufficient return on its invested assets by not achieving anticipated interest earnings, or of not earning anticipated spreads between the interest rate earned on investments and the credited interest rates paid on outstanding policies and contracts. Additionally, a prolonged period of low interest rates in the future may lengthen liability maturity, thus increasing the need for a re-investment of assets at yields that are below the amounts required to support guarantee features of FGL's and Front Street's contracts. Both rising and declining interest rates can negatively affect FGL's and Front Street's interest earnings and spread income (the difference between the returns FGL and Front Street earn on their investments and the amounts they must credit to policyholders and contractholders). While FGL and Front Street develop and maintain asset liability management ("ALM") programs and procedures designed to mitigate the effect on interest earnings and spread income in rising or falling interest rate environments, no assurance can be given that changes in interest rates will not materially adversely affect FGL's or Front Street's businesses, financial conditions and results of operations.

FGL's expectation for future interest earnings and spread income is an important component in amortization of DAC and VOBA and significantly lower interest earnings or spreads may cause FGL to accelerate amortization, thereby reducing net income in the affected reporting period. An extended period of declining interest rates or a prolonged period of low interest rates may also cause FGL or Front Street to change its long-term view of the interest rates that it can earn on its investments. Such a change in FGL's or Front Street's view would cause them to change the long-term interest rate that it assumes in their calculation of insurance assets and liabilities under U.S. GAAP. This revision would result in increased reserves and other unfavorable consequences. In addition, while the amount of statutory reserves is not directly affected by changes in interest rates, additional statutory reserves may be required as the result of an asset adequacy analysis, which is altered by rising or falling interest rates and widening credit spreads.

Additionally, FGL's and Front Street's ALM programs and procedures incorporate assumptions about the relationship between short-term and long-term interest rates and relationships between risk-adjusted and risk-free interest rates, market liquidity and other factors. The effectiveness of FGL's and Front Street's ALM programs and procedures may be negatively affected whenever actual results differ from these assumptions.

Changes in interest rates may also affect the attractiveness of certain of FGL's products. For example, lower interest rates may result in decreased sales of certain of FGL's insurance and investment products. However, during periods of declining interest rates, certain life insurance and annuity products may be relatively more attractive investments to consumers, resulting in increased premium payments on products with flexible premium features, repayment of policy loans and increased persistency or a higher percentage of insurance policies remaining in force from year to year during a period when FGL's investments carry lower returns. As a result, FGL could become unable to earn its desired level of spread income.

During periods of increasing market interest rates, FGL may offer higher crediting rates on interest-sensitive products, such as universal life insurance and fixed annuities, and FGL may increase crediting rates on in-force products to keep these products competitive. Increases in crediting rates, as well as surrenders and withdrawals, could have a material adverse effect on FGL's business, financial condition and results of operations. In addition, if long-term interest rates rise dramatically within a six- to twelve-month time period, certain of FGL's products may be exposed to disintermediation risk. Higher interest rates may increase the cost of debt and other obligations having floating rate or rate reset provisions and may result in lower sales of other products. A rise in interest rates, in the absence of other countervailing changes, will increase the net unrealized loss position of FGL's investment portfolio which will decrease FGL's accumulated other comprehensive income and shareholders' equity. FGL's gross unrealized loss on FGL's available for sale ("AFS") portfolio was $498.4 million as of September 30, 2015 compared to $109.8 million as of September 30, 2014.

FGL's and Front Street's investments are subject to market and credit risks. These risks could be heightened during periods of extreme volatility or disruption in financial and credit markets.

FGL's and Front Street's invested assets and derivative financial instruments are subject to risks of credit defaults and changes in market values. Periods of extreme volatility or disruption in the financial and credit markets could increase these risks. Underlying factors relating to volatility affecting the financial and credit markets could have a material adverse impact on FGL’s and Front Street’s results of operations or financial condition.

The value of FGL’s and Front Street’s mortgage-backed investments depends in part on the financial condition of the borrowers and tenants for the properties underlying those investments, as well as general and specific economic trends affecting the overall default rate. FGL and Front Street are also subject to the risk that cash flows resulting from the payments on pools of mortgages that serve as collateral underlying the mortgage-backed securities FGL and Front Street own may differ from their expectations in timing or size. Cash flow variability arising from an unexpected acceleration in mortgage prepayment behavior can be significant, and could cause a decline in the estimated fair value of certain “interest-only” securities within FGL’s and Front Street’s mortgage-backed securities portfolio. Any event reducing the estimated fair value of these securities, other than on a temporary basis, could have an adverse effect on FGL’s and Front Street’s business, results of operations and financial condition.

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Significant continued financial and credit market volatility, changes in interest rates, credit spreads, credit defaults, real estate values, market illiquidity, declines in equity prices, acts of corporate malfeasance, ratings downgrades of the issuers or guarantors of these investments and declines in general economic conditions, either alone or in combination, could have a material adverse impact on FGL’s or Front Street’s results of operations, financial condition or cash flows through realized losses, OTTI, changes in unrealized loss positions and increased demands on capital. As of September 30, 2015 and 2014, FGL had gross unrealized losses on its AFS portfolio of $498.4 million and $109.8 million, respectively. In addition, FGL’s investment portfolio is concentrated in certain industries. As of September 30, 2015 and 2014, FGL’s most significant investment in one industry was its investment securities in the banking industry with a fair value of $1,979.1 million and $2,240.3 million, or 10.4% and 11.6%, respectively, of the invested assets portfolio. FGL’s holdings in this industry include investments in 83 and 85 different issuers as of September 30, 2015 and 2014, respectively, with the top ten investments accounting for 39.0% and 40% of the total holdings in this industry as of September 30, 2015 and 2014, respectively. In addition, market volatility can make it difficult for FGL and Front Street to value certain of their assets, especially if trading becomes less frequent. Valuations may include assumptions or estimates that may have significant period-to-period changes that could have an adverse impact on FGL’s and Front Street’s results of operations or financial condition.
FGL is exposed to credit loss in the event of non-performance by its counterparties on call options. FGL seeks to reduce the risk associated with such agreements by purchasing such options from large, well-established financial institutions, but there can be no assurance that FGL will not suffer losses in the event of counterparty non-performance. As of September 30, 2015 and 2014, $7.0 million and $188.0 million, respectively, of collateral was posted by FGL’s counterparties. 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 $73.7 million and $108.3 million at September 30, 2015 and 2014, respectively. See "Note 5. Derivative Financial Instruments" to FGL’s audited consolidated financial statements for further discussion of credit risk.
Equity market volatility could negatively impact FGL’s or Front Street’s business.
Equity market volatility can negatively affect FGL’s or Front Street’s revenues and profitability in various ways, particularly as a result of guaranteed minimum withdrawal or surrender benefits in their products. The estimated cost of providing GMWB incorporates various assumptions about the overall performance of equity markets over certain time periods. Periods of significant and sustained downturns in equity markets, increased equity volatility could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction in FGL’s or Front Street’s revenues and net income. The rate of amortization of DAC and VOBA costs relating to FIA products and the cost of providing guaranteed minimum withdrawal or surrender benefits could also increase if equity market performance is worse than assumed, hence materially and adversely impacting FGL’s or Front Street’s results of operations and financial condition.
Credit market volatility or disruption could adversely impact FGL’s or Front Street’s financial condition or results of operations.
Significant volatility or disruption in credit markets could have a material adverse effect on FGL’s or Front Street’s business, financial condition and results of operations. Changes in interest rates and credit spreads could cause market price and cash flow variability in the fixed income instruments in FGL’s and Front Street’s investment portfolios. Significant volatility and lack of liquidity in the credit markets could cause issuers of the fixed-income securities in FGL’s or Front Street’s investment portfolio to default on either principal or interest payments on these securities. Additionally, market price valuations may not accurately reflect the underlying expected cash flows of securities within FGL’s or Front Street’s investment portfolio.
Changes in federal or state tax laws may affect sales of FGL’s products and profitability.
The annuity and life insurance products that FGL markets generally provide the policyholder with certain federal income or state tax advantages. For example, federal income taxation on any increases in non-qualified annuity contract values (i.e., the “inside build-up”) is deferred until it is received by the policyholder. Non-qualified annuities are annuities that are not sold to a qualified retirement plan. With other savings investments, such as certificates of deposit and taxable bonds, the increase in value is generally taxed each year as it is realized. Additionally, life insurance death benefits are generally exempt from income tax.

From time to time, various tax law changes have been proposed that could have an adverse effect on FGL’s business, including the elimination of all or a portion of the income tax advantages described above for annuities and life insurance. Additionally, insurance products, including the tax favorable features of these products, generally must be approved by the insurance regulators in each state in which they are sold. This review could delay the introduction of new products or impact the features that provide for tax advantages and make such products less attractive to potential purchasers. If legislation were enacted to eliminate the tax deferral for annuities, such a change would have a material adverse effect on FGL’s ability to sell non-qualified annuities.

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FGL and Front Street may be required to increase their valuation allowance against their deferred tax assets, and may face restrictions on FGL's and Front Street's ability to fully utilize such assets which could materially adversely affect FGL's and Front Street's capital position, business, operations and financial condition.

Deferred tax assets refer to assets that are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets in essence represent future savings of taxes that would otherwise be paid in cash. The realization of the deferred tax assets is dependent upon the generation of sufficient future taxable income, including capital gains. If it is determined that the deferred tax assets cannot be realized, a deferred tax valuation allowance must be established, with a corresponding charge to net income. Based on FGL's and Front Street's current assessment of future taxable income, including available tax planning opportunities, FGL and Front Street anticipate that it is more likely than not that FGL and Front Street will generate sufficient taxable income to realize all of their deferred tax assets as to which FGL and Front Street do not have a valuation allowance. If future events differ from FGL's and Front Street's current forecasts, the valuation allowance may need to be increased from the current amount, which could have a material adverse effect on FGL's and Front Street's capital position, business, operations and financial condition.

FGL's and Front Street's business models depend on the performance of various third parties, including independent distributors, underwriters, actuarial consultants and other service providers.

FGL and Front Street rely significantly on various third parties to provide services for their business operations. As such, their results may be affected by the performance of those other parties. For example, FGL is dependent upon independent distribution channels to sell its products, third parties to perform policy administration and underwriting functions, and independent consultants to perform actuarial analyses and asset managers to manage certain of FGL's assets. Additionally, FGL's and Front Street's operations are dependent on various service providers and on various technologies, some of which are provided or maintained by certain key outsourcing partners and other parties.

Many of FGL's products and services are complex and are sold through third-party intermediaries. In particular, FGL's insurance businesses are reliant on these intermediaries to describe and explain their products to potential customers. The intentional or unintentional misrepresentation of FGL's products and services in advertising materials or other external communications, or inappropriate activities by FGL's personnel or an intermediary, could adversely affect FGL's reputation and business prospects, as well as lead to potential regulatory actions or litigation.

The third parties upon which FGL and Front Street depend may default on their obligations to FGL or Front Street due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud, loss of key personnel, or other reasons. Such defaults could have a material adverse effect on FGL's or Front Street's financial condition and results of operations. In addition, certain of these other parties may act, or be deemed to act, on behalf of FGL or represent FGL in various capacities. Consequently, FGL may be held responsible for obligations that arise from the acts or omissions of these other parties

Interruption or other operational failures in telecommunication, information technology and other operational systems, or a failure to maintain the security, integrity, confidentiality or privacy of sensitive data residing on such systems, including as a result of human error, could harm FGL's or Front Street's business.

FGL and Front Street are highly dependent on automated and information technology systems to record and process their internal transactions and transactions involving their customers, as well as to calculate reserves, value-invested assets and complete certain other components of their U.S. GAAP and statutory financial statements. FGL or Front Street could experience a failure of one of these systems, their employees or agents could fail to monitor and implement enhancements or other modifications to a system in a timely and effective manner, or their employees or agents could fail to complete all necessary data reconciliation or other conversion controls when implementing a new software system or implementing modifications to an existing system. Despite the implementation of security and back-up measures, FGL's and Front Street's information technology systems may be vulnerable to physical or electronic intrusions, viruses or other attacks, programming errors and similar disruptions. FGL or Front Street may also be subject to disruptions of any of these systems arising from events that are wholly or partially beyond their control (for example, natural disasters, acts of terrorism, epidemics, computer viruses and electrical/telecommunications outages). All of these risks are also applicable where FGL and Front Street rely on outside vendors, including Dell, to provide services to FGL and Front Street, to provide services to them and their customers. The failure of any one of these systems for any reason, or errors made by FGL's or Front Street's employees or agents, could in each case cause significant interruptions to their respective operations, which could harm their reputations, adversely affect their internal controls over financial reporting, or have a material adverse effect on FGL's or Front Street's business, results of operations and financial condition.

FGL retains confidential information in its information technology systems and those of its business partners, and it relies on industry standard commercial technologies to maintain the security of those systems. Despite its implementation of network security measures, FGL's servers could be subject to physical and electronic break-ins, and similar disruptions from unauthorized tampering with their computer systems. While FGL performs annual penetration tests and has adopted a number of measures to protect the security of customer and company data and have not experienced a successful cyberattack, there is no guaranty that

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such an attack will not occur or be successful in the future. Anyone who is able to circumvent FGL's security measures and penetrate its information technology systems could access, view, misappropriate, alter, or delete information in the systems, including personally identifiable customer information and proprietary business information. Information security risks also exist with respect to the use of portable electronic devices, such as laptops, which are particularly vulnerable to loss and theft. In addition, an increasing number of jurisdictions require that customers be notified if a security breach results in the disclosure of personally identifiable customer information. Any compromise of the security of FGL's information technology systems that results in inappropriate access, use or disclosure of personally identifiable customer information could damage FGL's reputation in the marketplace, deter purchases of its products, subject FGL to heightened regulatory scrutiny or significant civil and criminal liability and require FGL to incur significant technical, legal and other expenses.

In the event of a disaster such as a natural catastrophe, an industrial accident, a blackout, a computer virus, a terrorist attack or war, FGL's or Front Street's information technology systems may be inaccessible to their employees, customers, or business partners for an extended period of time. Even if FGL's or Front Street's employees are able to report to work, they may be unable to perform their duties for an extended period of time if their data or systems are disabled or destroyed. Any such occurrence could materially adversely affect FGL's or Front Street's business, operations and financial condition.

FGL's and Front Street's insurance subsidiaries' ability to grow depends in large part upon the continued availability of capital.

FGL's and Front Street's insurance subsidiaries' long-term strategic capital requirements will depend on many factors, including their accumulated statutory earnings and the relationship between their statutory capital and surplus and various elements of required capital. To support their long-term capital requirements, FGL, Front Street and their insurance subsidiaries may need to increase or maintain their statutory capital and surplus through financings, which could include debt, equity, financing arrangements or other surplus relief transactions. Adverse market conditions have affected and continue to affect the availability and cost of capital from external sources. Neither FGL nor Front Street are obligated, and they may choose not or may be unable, to provide financing or make any capital contribution to their insurance subsidiaries. Consequently, financings, if available at all, may be available only on terms that are not favorable to FGL or Front Street or their insurance subsidiaries. If FGL's or Front Street's insurance subsidiaries cannot maintain adequate capital, they may be required to limit growth in sales of new policies, or reinsurance treaties (each as applicable), and such action could materially adversely affect FGL's or Front Street's business, operations and financial condition.

Accounting rules, changes to accounting rules, or the grant of permitted accounting practices to competitors could negatively impact FGL and Front Street.

FGL and Front Street are required to comply with U.S. GAAP. A number of organizations are instrumental in the development and interpretation of U.S. GAAP, such as the SEC, the FASB and the American Institute of Certified Public Accountants. U.S. GAAP is subject to constant review by these organizations and others in an effort to address emerging accounting rules and issue interpretative accounting guidance on a continual basis. FGL nor Front Street cannot assure you that future changes to U.S. GAAP will not have a negative impact on FGL or Front Street. U.S. GAAP includes the requirement to carry certain assets and liabilities at fair value. These fair values are sensitive to various factors including, but not limited to, interest rate movements, credit spreads, and various other factors. Because of this, changes in these fair values may cause increased levels of volatility in FGL's and Front Street's consolidated financial statements.

In addition, FGL's insurance subsidiaries are required to comply with statutory accounting principles ("SAP"). SAP and in particular actuarial reserving methodology are subject to constant review by the NAIC and its task forces and committees as well as state insurance departments in an effort to address emerging issues and otherwise improve financial reporting. Various proposals are currently, or have previously been, pending before committees and task forces of the NAIC, some of which, if enacted, would negatively affect FGL's insurance subsidiaries. The NAIC is also currently working to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves and the accounting for such reserves. FGL cannot predict whether or in what form reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect FGL. In addition, the NAIC

Accounting Practices and Procedures manual provides that state insurance departments may permit insurance companies domiciled therein to depart from SAP by granting them permitted accounting practices. FGL cannot predict whether or when the insurance departments of the states of domicile of its competitors may permit them to utilize advantageous accounting practices that depart from SAP, the use of which is not permitted by the insurance departments of the states of domicile of FGL and its insurance subsidiaries. With respect to regulations and guidelines, states sometimes defer to the interpretation of the insurance department of the state of domicile. Neither the action of the domiciliary state nor action of the NAIC is binding on a state. Accordingly, a state could choose to follow a different interpretation. FGL can give no assurance that future changes to SAP or components of SAP or the grant of permitted accounting practices to its competitors will not have a negative impact on FGL.

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FGL’s and Front Street’s risk management policies and procedures could leave them exposed to unidentified or unanticipated risks, which could negatively affect their businesses or result in losses.
FGL and Front Street have developed risk management policies and procedures and expect to continue to enhance these in the future. Nonetheless, their policies and procedures to identify, monitor, and manage both internal and external risks may not effectively mitigate these risks or predict future exposures, which could be different or significantly greater than expected. These identified risks may not be the only risks facing FGL or Front Street. Additional risks and uncertainties not currently known to FGL or Front Street, or that either of them currently deem to be immaterial, may adversely affect their business, financial condition or operating results. For example, FGL hedges its FIA index credits with a combination of static and dynamic strategies, which can result in earnings volatility. In addition, FGL’s FIA hedging strategy economically hedges the equity returns and exposes FGL to the risk that unhedged market exposures result in divergence between changes in the fair value of the liabilities and the hedging assets.
FGL may not be able to protect its intellectual property and may be subject to infringement claims.
FGL relies on a combination of contractual rights and copyright, trademark and trade secret laws to establish and protect its intellectual property. Although FGL uses a broad range of measures to protect its intellectual property rights, third parties may infringe or misappropriate its intellectual property. FGL may have to litigate to enforce and protect its copyrights, trademarks, trade secrets and know-how or to determine their scope, validity or enforceability, which represents a diversion of resources that may be significant in amount and may not prove successful. The loss of intellectual property protection or the inability to secure or enforce the protection of FGL’s intellectual property assets could adversely impact its business and its ability to compete effectively.
FGL also may be subject to costly litigation in the event that another party alleges its operations or activities infringe upon that party’s intellectual property rights. FGL may also be subject to claims by third parties for breach of copyright, trademark, trade secret or license usage rights. Any such claims and any resulting litigation could result in significant expense and liability for damages or FGL could be enjoined from providing certain products or services to its customers or utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses, or alternatively, FGL could be required to enter into costly licensing arrangements with third parties, all of which could have a material adverse effect on FGL’s business, results of operations and financial condition.
FGL’s business could be interrupted or compromised if it experiences difficulties arising from outsourcing relationships.
In addition to services provided by third-party asset managers and actuarial consultants, FGL outsources the following functions to third-party service providers, and expect to continue to do so in the future: (i) new business administration, (ii) hosting of financial systems, (iii) servicing of existing policies, (iv) information technology development and maintenance, (v) call centers and (vi) underwriting administration of life insurance applications. If FGL does not maintain an effective outsourcing strategy or third-party providers do not perform as contracted, it may experience operational difficulties, increased costs and a loss of business that could have a material adverse effect on its results of operations. In addition, FGL’s reliance on third-party service providers that it does not control does not relieve FGL of its responsibilities and requirements. Any failure or negligence by such third-party service providers in carrying out their contractual duties may result in FGL becoming subjected to liability to parties who are harmed and ensuing litigation. Any litigation relating to such matters could be costly, expensive and time-consuming, and the outcome of any such litigation may be uncertain.
Moreover, any adverse publicity arising from such litigation, even if the litigation is not successful, could adversely affect FGL’s reputation and sales of its products.
FGL and Front Street are exposed to the risks of natural and man-made catastrophes, pandemics and malicious and terrorist acts that could materially adversely affect their business, financial condition and results of operations.
Natural and man-made catastrophes, pandemics and malicious and terrorist acts present risks that could materially adversely affect FGL’s or Front Street’s results of operations. A natural or man-made catastrophe, pandemic or malicious or terrorist act could materially adversely affect the mortality or morbidity experience of FGL’s business or its reinsurers, including Front Street. For instance, a significant expansion of the scope and intensity of the recent Ebola crisis beyond its current geographic regions, especially within the United States, could adversely affect the

mortality and morbidity experience of FGL’s or Front Street’s business. Claims arising from such events could have a material adverse effect on FGL’s or Front Street’s business, operations and financial condition, either directly or as a result of their effect on FGL’s reinsurers including Front Street or other counterparties. Such events could also have an adverse effect on lapses and surrenders of existing policies, as well as sales of new policies. While FGL and Front Street have taken steps to identify and manage these risks, such risks cannot be predicted with certainty, nor fully protected against even if anticipated.

In addition, such events could result in overall macroeconomic volatility or specifically a decrease or halt in economic activity in large geographic areas, adversely affecting the marketing or administration of FGL’s or Front Street’s business within such geographic areas or the general economic climate, which in turn could have an adverse effect on FGL’s or Front Street’s business,

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operations and financial condition. The possible macroeconomic effects of such events could also adversely affect FGL's or Front Street's asset portfolio.

FGL's ability to maintain competitive policy expense costs is dependent upon the level of new sales and persistency of existing business.

FGL's ability to maintain competitive policy expense costs is dependent upon a number of factors, such as the level of new sales, persistency of existing business and expense management. A decrease in sales or persistency without a corresponding reduction in expenses may result in higher policy expense costs.

In addition, lower persistency may result in higher or more rapid amortization of VOBA costs, which would result in higher unit costs and lower reported earnings. Although many of FGL's products contain surrender charges, such charges decrease over time and may not be sufficient to cover the unamortized DAC and VOBA costs with respect to the insurance policy or annuity contract being surrendered.

There may be adverse consequences if the independent contractor status of FGL's IMOs is successfully challenged.

FGL sells its products through a network of approximately 200 IMOs representing approximately 30,000 independent agents and managing general agents. FGL currently treats these IMOs as independent contractors who own their own businesses. However, the tests governing the determination of whether an individual is considered to be an independent contractor or an employee are typically fact sensitive and vary from jurisdiction to jurisdiction. Laws and regulations that govern the status of the IMOs are subject to change or interpretation by various authorities. If a federal, state or local authority or court enacts legislation or adopts regulations or adopts an interpretation that changes the manner in which employees and independent contractors are classified or makes any adverse determination with respect to some or all of FGL's independent contractors, FGL could incur significant costs in complying with such laws, regulations or interpretations, including, in respect of tax withholding, social security payments and recordkeeping, or FGL could be held liable for the actions of such independent contractors or may be required to modify its business model, any of which could have a material adverse effect on FGL's business, financial condition and results of operations. In addition, there is the risk that FGL may be subject to significant monetary liabilities arising from fines or judgments as a result of any such actual or alleged non-compliance with federal, state or local tax or employment laws. Further, if it were determined that FGL's IMOs should be treated as employees, FGL could possibly incur additional liabilities with respect to any applicable employee benefit plan.

If FGL is unable to attract and retain national marketing organizations and independent agents, sales of FGL's products may be reduced.

FGL must attract and retain its network of IMOs and independent agents to sell its products. Insurance companies compete vigorously for productive agents. FGL competes with other life insurance companies for marketers and agents primarily on the basis of FGL's financial position, support services, compensation and product features. Such marketers and agents may promote products offered by other life insurance companies that may offer a larger variety of products than FGL does. FGL's competitiveness for such marketers and agents also depends upon the long-term relationships FGL develops with them. FGL's most important IMOs (those who are able to meet certain production targets) are referred to as "Power Partners". FGL currently has 31 Power Partners that accounted for approximately 91% of FGL's Fiscal 2015 sales volume. There can be no guaranty that such relationships will continue in the future. If FGL is unable to attract and retain sufficient marketers and agents to sell its products, FGL's ability to compete and its revenues would suffer.

FGL may be subject to an additional tax as a personal holding company on future undistributed personal holding company income if it generates passive income in excess of operating expenses (subject to certain exclusions relating to FGL's life insurance subsidiaries).

Section 541 of the Code subjects a corporation (not including a life insurance corporation) that is a "personal holding company" ("PHC") to a 20% tax on "undistributed personal holding company income" in addition to a corporation's normal income tax. A corporation (not including a life insurance corporation) is also generally is considered to be a PHC if (i) at least 60% of its adjusted ordinary gross income (excluding dividends paid by any non-consolidated life insurance subsidiary) is PHC Income (defined below) and (ii) more than 50% in value of its outstanding stock is owned, directly or indirectly, by five or fewer individuals (including, for this purpose, certain organizations and trusts) at any time during the last half of the taxable year. Personal holding company income ("PHC Income") is comprised primarily of

passive investment income (but does not include non-passive income such as insurance premiums or dividends paid by any non-consolidated life insurance subsidiary) plus, under certain circumstances, personal service income.
So long as individuals and their affiliates hold (directly or by attribution) more than 50% in value of FGL's outstanding Common Stock, including through ownership of the outstanding Common Stock of HRG at any time during any future tax year, it is possible that FGL will be a PHC if at least 60% of its adjusted ordinary gross income consists of PHC Income (taking into account the rules and exclusions discussed above). In the past, FGL has not incurred the PHC tax. However, there can be no assurance that FGL will not be subject to this tax in the future, which, in turn, may materially and adversely impact its financial position, results

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of operations, cash flows and liquidity.
The agreements and instruments governing FGL's debt contain significant operating and financial restrictions, which may prevent FGL from capitalizing on business opportunities.
The indenture governing the 6.375% senior notes due 2021 (the "Senior Notes") issued by FGH and the three-year $150.0 million unsecured revolving credit facility (the "Credit Agreement"); each contains various restrictive covenants which limit, among other things, FGH's ability to:

- incur additional indebtedness;
- pay dividends or certain other distributions on its capital stock other than as allowed under the indenture and the Credit Agreement;
- make certain investments or other restricted payments;
- engage in transactions with stockholders or affiliates;
- sell certain assets or merge with or into other companies;
- change FGH's accounting policies;
- enter into restrictive agreements;
- guarantee indebtedness; and
- create liens.

In addition, if FGL or FGH undergoes a "change of control" as defined in the indenture, each holder of FGH Senior Notes will have the right to require FGL to repurchase their FGL Senior Notes at a price equal to 101% of the principal amount and any accrued but unpaid interest.
As a result of these restrictions and their effect on FGL, FGL may be limited in how it conducts its business and FGL may be unable to raise additional debt financing to compete effectively or to take advantage of new business opportunities. The terms of any future indebtedness FGL or its subsidiaries may incur could include more restrictive covenants.
FGL's subsidiaries may not be able to generate sufficient cash to service all of their obligations and may be forced to take other actions to satisfy their obligations, which may not be successful.
FGL's subsidiaries' ability to make scheduled payments on or to refinance their debt obligations, including the FGH Senior Notes, depends on their financial condition and operating performance, which in turn are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond their control. FGL's subsidiaries may not be able to maintain a level of cash flows from operating activities sufficient to permit them to pay the principal, premium, if any, and interest on indebtedness.
If FGL's subsidiaries' cash flows and capital resources are insufficient to fund its subsidiaries' obligations, FGL could face substantial liquidity problems and may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance indebtedness. FGL's ability to restructure or refinance its subsidiaries' debt will depend on the condition of the capital markets and its financial condition at such time. Any refinancing of FGL's subsidiaries' debt could be at higher interest rates and may require compliance with more onerous covenants, which could further restrict its business operations. The terms of existing and future debt instruments may restrict FGL from adopting some of these alternatives. In addition, any failure to make payments on outstanding obligations on a timely basis would likely result in a reduction of FGL's ratings, which could harm FGL's ability to conduct its business and to incur additional indebtedness. In the face of such substantial liquidity problems, FGL may be required to dispose of material assets or operations to meet its obligations. FGL may not be able to consummate those dispositions and these proceeds may not be adequate to meet any obligations then due.
FGL has entered into business transactions with unaffiliated third-party borrowers through Salus and would be adversely affected if third-party borrowers were unable to meet their obligations.
FGL maintains exposure to senior secured asset-based loans to unaffiliated third-party borrowers through loans originated by Salus, a company indirectly owned by HRG. FGL Insurance has not participated in any new originations to asset-based loans through Salus since October 2014, and this portfolio has been winding down as exposures mature and borrowers refinance. As of September 30, 2015, $109.3 million of such loans were outstanding. FGL currently estimates that this portfolio will be largely paid down by the end of calendar year 2017.

FGL is a holding company with no operations of its own. As a consequence, FGL's ability to pay dividends on its stock will depend on the ability of its subsidiaries to pay dividends to FGL, which may be restricted by law.
FGL is a holding company with limited business operations of its own. Its primary subsidiaries are insurance subsidiaries that own substantially all of its assets and conduct substantially all of its operations. Accordingly, FGL's payment of dividends is dependent, to a significant extent, on the generation of cash flow by its subsidiaries and their ability to make such cash available to FGL, by dividend or otherwise. FGL's subsidiaries may not be able to, or may not be permitted to, make distributions to enable

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FGL to meet its obligations and pay dividends. Each subsidiary is a distinct legal entity and legal and contractual restrictions may also limit FGL's ability to obtain cash from its subsidiaries.

FGL's insurance subsidiaries are subject to various statutory and regulatory restrictions and the ability of its insurance subsidiaries to pay dividends is limited by applicable insurance laws and regulations. See Part I, Item 1A."Business-Our Operating Subsidiaries-FGL-Regulation-Dividend and Other Distribution Payment Limitations". The Iowa insurance law and the New York insurance law regulate the amount of dividends that may be paid in any year by FGL Insurance and FGL NY Insurance, respectively. This could limit both FGL's ability to receive cash flow from its direct wholly owned subsidiary, FGH and FGH's ability to receive cash flow from its direct wholly owned subsidiary, FGL Insurance, and FGL Insurance's ability to receive cash flow from its direct wholly owned subsidiary, FGL NY Insurance.

Each year FGL Insurance may pay a certain limited amount of ordinary dividends or other distributions without being required to obtain the prior consent of the Iowa Commissioner. FGL Insurance is required to provide advance written notice to the Iowa Commissioner of its intention to pay dividends that are deemed ordinary dividends and to request approval to pay dividends that are deemed extraordinary dividends. Pursuant to Iowa insurance law, ordinary dividends are payments, together with all other such payments within the preceding twelve months, that do not exceed the greater of (i) 10% of FGL Insurance's statutory surplus as regards policyholders as of December 31 of the preceding year; or (ii) the net gain from operations of FGL Insurance (excluding realized capital gains) for the 12-month period ending December 31 of the preceding year. Dividends may only be paid out of statutory earned surplus.

Dividends in excess of FGL Insurance's ordinary dividend capacity are referred to as extraordinary and require prior approval of the Iowa Commissioner. In deciding whether to approve a request to pay an extraordinary dividend, Iowa insurance law requires the Iowa Commissioner to consider the effect of the dividend payment on FGL Insurance's surplus and financial condition generally and whether the payment of the dividend will cause FGL Insurance to fail to meet its required RBC ratio. In addition, Delaware law may impose requirements that may restrict FGL's ability to pay dividends to holders of FGL's common stock. FGL Insurance has not paid out extraordinary dividends since 2008, and in the future FGL Insurance may be required to request approval to pay an extraordinary dividend and there is no guarantee such a request would be approved by the Iowa Commissioner.

It is possible that in the future, FGL's insurance subsidiaries may be unable to pay dividends or distributions to FGL in an amount sufficient to meet its obligations or to pay dividends due to a lack of sufficient statutory net gain from operations, a diminishing statutory policyholders surplus, changes to the Iowa or New York insurance laws or regulations or for some other reason. Further, the covenants in the agreement governing the existing indebtedness of FGH significantly restrict its ability to pay dividends, which further limits FGL's ability to obtain cash or other assets from FGL's subsidiaries. If FGL's subsidiaries cannot pay sufficient dividends or distributions to FGL in the future, FGL would be unable to meet its obligations or to pay dividends. This would negatively affect FGL's business and financial condition as well as the trading price of FGL's common stock.

FGL and Front Street operate in highly competitive industries, which could limit their abilities to gain or maintain their respective positions in the industries and could materially adversely affect their business, financial condition and results of operations.

FGL and Front Street operate in highly competitive industries. FGL encounters significant competition in all of its product lines from other insurance companies. Front Street faces significant competition from other reinsurance providers. Many of FGL's and Front Street's competitors have greater financial resources and, with respect to FGL, higher financial strength ratings, which may have a greater market share, offer a broader range of products, services or features, assume a greater level of risk, have lower operating or financing costs, or have different profitability expectations than FGL or Front Street, as applicable. Competition could result in, among other things, lower sales or higher lapses of existing products.

FGL's annuity products compete with fixed indexed, fixed rate and variable annuities sold by other insurance companies and also with mutual fund products, traditional bank investments and other retirement funding alternatives offered by asset managers, banks and broker-dealers. FGL's insurance products compete with those of other insurance companies, financial intermediaries and other institutions based on a number of factors, including premium rates,

policy terms and conditions, service provided to distribution channels and policyholders, ratings by rating agencies, reputation and commission structures.
Consolidation in the insurance and reinsurance industries and in distribution channels may result in increasing competitive pressures on FGL and Front Street. Larger, potentially more efficient organizations may emerge from such consolidation. In addition, some mutual insurance companies have converted to stock ownership, which gives them greater access to capital markets and greater ability to compete. The ability of banks to increase their securities-related business or to affiliate with insurance companies may materially and adversely affect sales of all of FGL’s products by substantially increasing the number and financial strength of potential competitors. Consolidation and expansion among banks, insurance companies and other financial services companies with which FGL and Front Street do business could also have an adverse effect on their business, operations and financial condition if they demand more favorable terms than FGL or Front Street previously offered or if they elect not to continue to do business with FGL or Front Street following consolidation or expansion.
FGL’s ability to compete is dependent upon, among other things, its ability to develop competitive and profitable products, its ability to maintain low unit costs, and its maintenance of adequate financial strength ratings from rating agencies. FGL’s ability

to compete is also dependent upon, among other things, its ability to attract and retain distribution channels to market its products, the competition for which is vigorous. FGL competes for marketers and agents primarily on the basis of FGL's financial position, support services, compensation and product features. Such marketers and agents may promote products offered by other life insurance companies that may offer a larger variety of products than FGL does. FGL's competitiveness for such marketers and agents also depends upon the long-term relationships FGL develops with them. If FGL is unable to attract and retain sufficient marketers and agents to sell its products, its ability to compete and FGL's revenues will suffer.

Front Street's ability to successfully compete will be dependent on its ability to successfully enter into additional reinsurance agreements and its ability to achieve its anticipated investment returns. Front Street has historically done business with other affiliates of HRG and may in the future enter into similar arrangements. There can be no assurance, however, that such arrangements will occur or that they will be successful. Front Street may not find opportunities with desired returns in primary markets. As a result, Front Street may have to turn to opportunities with more risk, such as foreign markets or other product markets, such as long-term care.

Front Street's ability to successfully compete will also be dependent on risks associated with an insurance business and managing of assets, including, among other things, Front Street's: (a) ability to successfully implement its investment strategy, especially with respect to riskier, below-investment-grade securities; (b) exposure to credit risk associated with third parties, including brokers with whom it will conduct business; (c) ability to accurately assess the risks associated with the businesses that it will reinsure; (d) ability to provide collateral to ceding companies or otherwise comply with applicable insurance regulations; (e) ability to obtain desirable financial strength ratings and avoid any subsequent downgrade or withdrawal of any of their financial strength ratings (f) ability to secure additional capital to grow its business; (g) ability to manage the growth of its business effectively, (h) ability to successfully employ loss limitation methods to mitigate its loss exposure; (i) ability to attract qualified personnel and retain such key personnel; (j) mitigate unfavorable changes in applicable laws, accounting rules or regulations; (k) operational risks associated with, among other things, employee and contractor conduct, operational errors, system malfunctions and cyber-security incidents; and (l) successfully risks.

Risks Related to the Asset Managers' Businesses

The Asset Managers may not recover all amounts that are contractually owed to them by their borrowers.

During Fiscal 2015, following certain organizational changes at Salus, Salus determined to focus its efforts primarily on monitoring, servicing and collecting its existing loans and not to underwrite any new loans. after March 31, 2015. The success of Salus' business strategy is primarily dependent on its ability to recover amounts owed to it by its borrowers. While Salus has developed a variety of processes to value and monitor the collateral related to its loans and maintain its position in the collateral securing its loans, there can be no assurance that it will not suffer a partial or complete loss if the loan becomes non-performing. Such loss may arise from a variety of reasons, including, the risk profile of the borrower and the complex nature of the transaction; Salus not being provided with complete and accurate disclosure of all material information concerning the borrower and its business or Salus may, even if it receives complete and accurate information, misinterpret or incorrectly analyze such information; the failure of results or developments to materialize as anticipated or mistakes in interpreting data, assumptions, analyses, and financial forecasts prepared for Salus by its employees or third parties; or Salus' inability to timely detect operational or financial problems of the borrower that could result in a substantial impairment or loss of the value of the collateral and Salus' loan. Furthermore, while most of Salus' loans are secured by a first lien on specified collateral, there is no assurance that Salus has obtained or properly perfected its liens or will be able to seize and liquidate the collateral prior to diminution in value. Any such losses, particularly recognizing that many of Salus' loans individually represent a significant percentage of its total loans, could adversely affect the adequacy of Salus' reserves for credit losses and have a material adverse effect on Salus' business, results of operations, and financial position. For example, during Fiscal 2015, RadioShack Corp. ("RadioShack"), the borrower of Salus' largest loan to date, filed for Chapter 11 bankruptcy. Salus was the lender under RadioShack's $250.0 million term loan placed in December 2013 with a net exposure to Salus and its affiliates of $150.0 million after giving effect to a non-qualifying participation of $100.0 million held by a third party that was fully repaid. The extent to which Salus will be able to recover amounts owed to it by RadioShack is dependent on a number of factors, including the results of asset sales, only some of which have been completed to date, and ongoing litigation. As of September 30, 2015, the expected recovery on the RadioShack loan, excluding any additional proceeds from ongoing litigation, resulted in an impairment of $101.0 million recognized Salus and its affiliates. Aside from the RadioShack loan, during Fiscal 2015, Salus recorded additional provision for credit losses of $24.8 million primarily related to nine delinquent loans where the underlying collateral was underperforming. CorAmerica's business strategy includes the origination and acquisition of commercial real estate loans and EIC's investment strategy includes lending to borrowers in the energy and infrastructure sectors. These investment strategies each have substantial credit risk associated with them. Defaults on these loans and other credit-related investments could have a material adverse effect on these Asset Managers' financial condition, results of operations or cash flows.

In addition to borrower credit risk associated with loans and other high-yield investments, the Asset Managers are exposed to other forms of credit risk. If the Asset Managers' credit underwriting processes or credit risk judgments fail to adequately identify or assess applicable risks, or if the credit quality of their derivative counterparties, customers, manufacturers, or other parties

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with which they conduct business materially deteriorates, they may be exposed to credit risk-related losses that may negatively impact their financial condition, results of operations or cash flows.

The Asset Managers must continue to address a number of issues to implement their strategies and grow their businesses.

To implement their strategies and grow their businesses, the Asset Managers must continue to address a number of strategic issues that affect their businesses, including the availability of capital and liquidity and operational issues. If the Asset Managers are unable to obtain access to capital and liquidity on a cost-effective and sustainable basis, they may face significant challenges. For instance, many of Salus', EIC's and CorAmerica's borrowers rely upon funding from such Asset Managers to provide them with the working capital necessary to operate their business or to fund capital improvements. In many instances, these funding requirements are time-sensitive. If any of the Asset Managers' borrowers are uncertain as to their ability to continue to provide them with funding on a timely basis or to provide the same breadth and quality of products, such Asset Manager may be unable to attract new borrowers and may experience lower business or a loss of business with its existing borrowers.

Among operational issues, EIC and CorAmerica must continuously originate new products and services to attract new business, and each Asset Manager must service its existing portfolio and adopt appropriate policies, procedures, and systems. In addition, in accordance with its business strategy, Salus is focused on collecting on the loans in its existing portfolio and reducing the size of its business over time. There is no assurance that any of the Asset Managers will be able to implement their strategic decisions effectively, and it may be necessary to refine, supplement, or modify their business plans and strategies in significant ways. If any Asset Manager is unable to fully implement its business plan and strategy, such inability could have a material adverse effect on its business, results of operations and financial position.

The Asset Managers are subject to a variety of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, operational errors, systems malfunctions, or cyber-security incidents and other risks, which may adversely affect their businesses and results of operations.

The Asset Managers are exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by borrowers, employees or outsiders, unauthorized transactions by employees, or operational errors, including clerical or record keeping errors or those resulting from faulty or disabled computer or telecommunications systems or disclosure of confidential proprietary information of customers. In addition, negative public opinion can result from an Asset Manager's actual or alleged conduct in any number of activities, including lending practices, sales practices, customer treatment, corporate governance and acquisitions and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect an Asset Manager's ability to attract and keep customers and can expose it to litigation and regulatory action. Actual or alleged conduct by an Asset Manager can result in negative public opinion about its business.

Each Asset Manager is subject to a variety of laws and regulations, including laws and regulations applicable to registered investment advisers. In order to conduct their operations in compliance with these laws and regulations, the Asset Managers have incurred and are expected to continue to incur substantial costs in order to comply with these laws and regulations. Failure to comply with such laws and regulations, as interpreted and enforced, could have a material adverse effect on an Asset Manager's results of operations, cash flows and financial condition.

The Asset Managers' businesses are dependent on their ability to process a large number of complex transactions. If an Asset Manager's financial, accounting, or other data processing systems fail or have other significant shortcomings, that Asset Manager could be materially adversely affected. Each Asset Manager is similarly dependent on their employees. For example, as Salus collects on its existing portfolio of loans it is expected that Salus' operations will significantly diminish and its number of employees will be significantly reduced. As a result, Salus will increasingly be dependent on a small number of employees. Salus and the other Asset Managers could be materially adversely affected by the loss of their key employees and/or if one of their employees causes a significant operational break-down or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates its operations or systems.

An Asset Manager may also be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control, which may include, for example, computer viruses or electrical or telecommunications outages, natural or man-made disasters, such as earthquakes, hurricanes, floods, or tornadoes, disease pandemics, or events arising from local or regional politics, including terrorist acts. Such disruptions may give rise to losses in service to clients and loss or liability to the Asset Manager. In addition, there is the risk that an Asset Manager's controls and procedures, as well as business continuity and data security systems prove to be inadequate. The computer systems and network systems an Asset Manager and others use could be vulnerable to unforeseen problems. These problems may arise in both an Asset Manager's internally developed systems and the systems of third-party service providers. In addition, an Asset Manager's computer systems and network infrastructure present security risks, and could be susceptible to hacking or identity theft. Any such failure could affect the Asset Manager's operations and could materially adversely affect its results of operations by requiring it to expend significant resources to correct the defect, as well as by exposing it to litigation or losses not covered by insurance. Although the Asset Managers have business continuity plans and other safeguards in place, an Asset Manager's business operations may be adversely affected by significant and widespread disruption to its physical infrastructure or operating systems that support its businesses and clients.

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EIC has a limited operating history. There can be no assurance that EIC will be able to successfully enter into investment management agreements or other investments or arrangements in the future, that such activities will be successful, or that EIC will be able to achieve its anticipated investment returns.
Accordingly, no assurance may be provided that the Asset Managers will be successful in managing their assets, achieving their investment objectives or that the value of their assets will not decline substantially.
Risks Related to Compass' Business
Oil, natural gas and NGL prices are volatile and have recently declined significantly. If oil, natural gas and NGL prices do not improve or if they decline further, Compass' business, financial condition and results of operations may be materially and adversely affected.
The future financial condition, access to capital, cash flow and results of operations of Compass will depend upon the prices it receives for its oil, natural gas, and NGLs. Compass will be particularly dependent on prices for natural gas because a large portion of the proved reserves attributable to its properties are natural gas. Historically, oil, natural gas and NGL prices have been volatile and are subject to fluctuations in response to changes in supply and demand, market uncertainty and a variety of additional factors that are beyond the control of Compass. Factors that affect the prices Compass will receive for its oil and natural gas include:

- supply and demand for oil and natural gas and expectations regarding supply and demand;
- the level of domestic production;
- the availability of imported oil and natural gas;
- political and economic conditions and events in foreign oil and natural gas producing nations, including embargoes, continued hostilities in the Middle East and other sustained military campaigns, and acts of terrorism or sabotage;
- the ability of members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls;
- the cost and availability of transportation and pipeline systems with adequate capacity;
- the cost and availability of other competitive fuels;
- fluctuating and seasonal demand for oil, natural gas and refined products;
- concerns about climate change or other conservation initiatives and the extent of governmental price controls and regulation of production;
- regional price differentials and quality differentials of oil and natural gas;
- the availability of refining capacity;
- technological advances affecting oil and natural gas production and consumption;
- weather conditions and natural disasters;
- foreign and domestic government relations and laws and regulations; and
- overall economic conditions.

Recently, oil, natural gas and NGL prices have declined significantly. On November 16, 2015, the WTI posted price for crude oil was $41.68 per barrel and the Henry Hub spot market price of natural gas was $2.02 per MMBtu, representing decreases of 75% and 61%, respectively, from the high of $107.95 per barrel of oil and $8.15 per MMBtu for natural gas during 2014. Likewise, NGLs have suffered significant recent declines in realized prices. A further or extended decline in commodity prices could materially and adversely affect Compass' business, financial condition and results of operations and its ability to secure an adequate borrowing capacity, repay indebtedness and obtain additional capital on attractive terms. Lower oil natural gas and NGL prices may not only decrease Compass' revenues on a per unit basis but also may reduce the amount of oil, natural gas and NGLs that it can economically produce. A reduction in production could result in a shortfall in expected cash flows and require a reduction in capital spending or require additional borrowing. Without the ability to fund capital expenditures, Compass would be unable to replace reserves, which would negatively affect its future rate of growth.
Compass has a substantial amount of indebtedness, which may adversely affect its cash flow and ability to operate its business, remain in compliance with debt covenants and make payments on its debt and distributions to us. HGI Funding has provided credit support for such indebtedness in the past but may choose not to do so in the future.
Compass' borrowing base under the Partnership Credit Facility was $320.0 million as of November 13, 2015, and as of such date $307.0 million was drawn under the Partnership Credit Facility. Additionally, under the Partnership Credit

Facility, the amount available under the borrowing base is determined semi-annually by the lenders using the lenders' valuation of Compass' assets. If the borrowing base is decreased below the amount of indebtedness then outstanding, Compass may have to repay its borrowings under the Partnership Credit Facility in order to conform to the new borrowing base. As of the November 2015 redetermination, the lenders determined that Compass' existing assets were insufficient to support a $320.0 million borrowing base. The lenders

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agreed to provide for a $320.0 million borrowing base only on the condition that HGI Funding agrees to guarantee up to $110.0 million of the Partnership Credit Facility and commit to make certain equity contributions to repay the borrowings under the Partnership Credit Facility to the extent a shortfall persisted as of the next scheduled redetermination. If Compass' assets are determined by the lenders to be insufficient to support the outstanding loans under the Partnership Credit Facility at a future redetermination, HGI Funding may determine not to provide any additional guarantees or equity commitments (or the lenders may decline to agree to maintain the borrowing base in exchange for the same), in which case Compass may be required to repay borrowings under the Partnership Credit Facility. To service its indebtedness, Compass will be required to generate a significant amount of cash. Compass' ability to generate cash depends on many factors beyond its control, and any failure to meet its debt obligations could harm its business, financial condition and results of operations. In particular, Compass' reserves, borrowing base, production and cash flows can be negatively impacted by declines in natural gas prices. If Compass' operating cash flow and other capital resources are insufficient to fund its debt obligations, it may be forced to sell assets, seek additional equity or debt capital or restructure its debt. These remedies may not be available on commercially reasonable terms, or at all. In addition, the Partnership Credit Facility contains affirmative and negative covenants imposing operating and financial restrictions on Compass' business, including restrictions on, among other things, asset dispositions, mergers and acquisitions, dividends, other restricted payments, indebtedness, loans and investments, liens, affiliate transactions and amendments to organizational documents. The Partnership Credit Facility also requires the satisfaction of certain financial tests, including, among other things, a minimum consolidated current ratio and a maximum consolidated leverage ratio. Defaults under the maximum consolidated leverage ratio covenant for each fiscal quarter through the fiscal quarter ending September 30, 2016 may be cured by HGI Funding, to the extent it elects to increase the amount of its guarantee of the Partnership Credit Facility. If such election is made, HGI Funding will be required to make an equity contribution to Compass in the amount of such elected guaranty within eleven business days of the delivery of Compass's compliance certificate under the Partnership Credit Agreement for the period ending September 30, 2016.

Changes in the differential between NYMEX or other benchmark prices of oil and natural gas and the reference or regional index price used to price Compass' actual oil and natural gas sales could have a material adverse effect on the results of operations and financial condition of Compass.

The reference or regional index prices that Compass uses, to price its oil and natural gas sales sometimes reflect a discount to the relevant benchmark prices, such as NYMEX. The difference between the benchmark price and the price references in a sales contract is called a differential. It is not possible to accurately predict oil and natural gas differentials. Changes in differentials between the benchmark price for oil and natural gas and the reference or regional index price references in Compass' sales contracts could have a material adverse effect on Compass' results of operations, cash flows and financial condition.

There are risks associated with Compass' drilling activity that could impact the results of our operations.

Drilling involves numerous risks, including the risk that Compass will not encounter commercially productive oil or natural gas reservoirs. The cost of identifying and acquiring properties and drilling and completing wells is also expensive. Additionally, seismic and other technology will not allow Compass to know conclusively prior to drilling a well that oil or natural gas is present or economically producible. The costs of drilling and completing wells are often uncertain, and drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including unexpected drilling conditions, pressure or irregularities in formations, equipment failures or accidents, weather conditions and shortages or delays in the delivery of equipment. We have experienced, and Compass may in the future experience, some delays in contracting for drilling rigs, and obtaining fracture stimulation crews and materials, which result in increasing costs to drill wells. All of these risks could adversely affect Compass' results of operations, cash flows and financial condition.

Prior to April 30, 2105, Compass relied on EXCO to perform certain critical transition services. Compass has only operated as a stand-alone company since April 30, 2015 and while Compass has an experienced management team there can be no assurance that, as a new company, Compass will be able to effectively and efficiently implement its business strategy and operations.

Compass terminated its transition services agreement with EXCO on April 30, 2015 and thereafter began operating as a stand-alone company. Compass currently handles all accounting, environmental, engineering, information technology and marketing administration services internally. Although Compass has employed an experienced management team, along with a full staff of employees, there can be no assurances that Compass will be able to perform these services as efficiently or effectively or at the same cost level at which such services were performed by EXCO. Significant disruption in these services, or unanticipated costs related to these services, could materially and adversely affect Compass' business, financial condition and results of operations. In addition, if Compass cannot successfully operate as a stand-alone company, with all appropriate systems and personnel, it may be unable to continue running its business as it is presently operated or at the same cost.

Compass may be unable to successfully execute one or more disposition opportunities.

Compass has made and continues to pursue disposition opportunities of its assets and properties, both to reduce its indebtedness and to increase its cash position. These disposition opportunities can consist of asset sales and/or the sale of stock of one or more of entities affiliated with Compass. There are no assurances that Compass will be able to identify suitable disposition opportunities in the future or that Compass will be able to complete such dispositions on favorable terms. Further, any such dispositions may not result in improved results of operations for Compass and significant dispositions may change the nature of Compass's operations and business.

The successful disposition of assets and properties requires an assessment of numerous factors, some of which are beyond Compass' control, including, without limitation, estimated recoverable reserves, exploration and development potential, prevailing oil and natural gas prices, operating costs, potential seller indemnification obligations, the creditworthiness of the buyer, the satisfaction of closing conditions that may be beyond the control of Compass and potential environmental and other liabilities. In connection with such an assessment, Compass performs a review of the subject properties that its management team believes to be generally consistent with industry practices. The resulting assessments are inexact and their accuracy uncertain, and such a review may not reveal all existing or potential benefits associated with a property, nor will it necessarily permit Compass to become sufficiently familiar with the properties to fully assess their merits and deficiencies within the time frame required to complete the transactions. Sellers typically retain certain liabilities or indemnify buyers for certain matters. The magnitude of any such retained liability or indemnification obligation may be difficult to quantify at the time of the transaction and ultimately may be material. Also, as is typical in divestiture transactions, third parties may be unwilling to release Compass from guarantees or other credit support provided prior to the sale of the divested assets. As a result, after a divestiture, Compass may remain secondarily liable for the obligations guaranteed or supported to the extent that the buyer of the assets fails to perform these obligations.

Compass relies on EXCO to provide certain natural gas marketing services, and there can be no assurance that Compass can replace those services.

Prior to October 31, 2014, Compass' natural gas production was marketed and sold by EXCO. Upon the closing of the 2014 Acquisition from EXCO, Compass entered into several short-term agreements with EXCO, under which EXCO would continue to market and sell Compass' natural gas production from Vernon and Waskom fields. These short-term agreements have terms ending on December 31, 2015 and January 1, 2016, respectively. Compass also entered into a long-term agreement under which EXCO will continue to market and sell Compass' natural gas production from portions of the Holly field until November 30, 2020. Compass expects to enter into new contracts with other natural gas marketing companies prior to the expiration of its current arrangements with EXCO. If Compass fails to replace these contracts prior to their expiration dates, Compass will market its natural gas production internally. There is no assurance that Compass will be able to enter into replacement natural gas contracts on favorable terms or at all. Compass' business, results of operations and financial condition may be materially and adversely affected if it is unable to replace the natural gas marketing services currently provided by EXCO on favorable terms.

Compass may encounter obstacles to marketing its natural gas, which could adversely impact its revenues.

The effective marketing and sale of Compass' natural gas production will depend upon the availability and capacity of natural gas gathering systems, pipelines and other transportation facilities. Compass will be primarily dependent upon third parties to transport its production. Transportation space on the gathering systems and pipelines to be used for Compass' natural gas is occasionally limited or unavailable due to repairs, outages caused by accidents or other events, or improvements to facilities or due to space being utilized by other companies that have priority transportation agreements. In addition, Compass' access to transportation options can also be affected by U.S. federal and state regulation of natural gas production and transportation, general economic conditions and changes in supply and demand. These factors and the availability of markets are beyond Compass' control. If regulatory or market factors materially change, the impact on Compass' revenues could be substantial and could adversely affect its ability to produce and market natural gas, which would negatively impact Compass' results of operation, cash flows and financial condition.

Compass' estimates of oil and natural gas reserves will involve inherent uncertainty, which could materially affect the quantity and value of its reported reserves, its financial condition and the value of our interest therein.

Numerous uncertainties are inherent in estimating quantities of proved oil and natural gas reserves, including many factors beyond Compass' control. This report contains estimates of the proved oil and natural gas reserves attributable to the properties acquired by Compass. These estimates are based upon reports of independent petroleum engineers.

These reports rely upon various assumptions, including assumptions required by the SEC as to oil and natural gas prices, drilling and operating expenses, capital expenditures, ad valorem and state severance taxes and availability of funds. These estimates should not be construed as the current market value of Compass' estimated proved reserves. The process of estimating oil and natural gas reserves is complex, requiring significant decisions and assumptions in the evaluation of available geological, engineering and economic data for each reservoir. As a result, the estimates are inherently imprecise evaluations of reserve quantities and future net revenue. In addition, as described in more detail in notes to the financial statements, Compass recognized an impairment of $485.1 million based on the excess of unamortized costs over fair value, which was primarily caused by the significant decline in commodity prices. The actual future production, revenues, taxes, development expenditures, operating expenses and quantities of Compass' recoverable oil and natural gas reserves may vary substantially from those that have been assumed in the estimates. Any significant variance in our assumptions could materially affect the quantity and value of reserves, or the amount of PV-10 and Standardized Measure

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(which is a measure recognized under U.S. GAAP) of the reserves, and Compass' financial condition. In addition, Compass' reserves, the amount of PV-10 and Standardized Measure, may be revised downward or upward based upon production history, results of future exploitation and development activities, prevailing oil and natural gas prices and other factors. A material decline in prices paid for Compass' production can adversely impact the estimated volumes and values of its reserves. Similarly, a decline in market prices for oil or natural gas may adversely affect its PV-10 and Standardized Measure. Any of these negative effects on Compass' reserves or PV-10 and Standardized Measure may decrease the value of HGI Energy's interests in Compass or the ability of Compass to pay distributions.

Compass will be exposed to operating hazards and uninsured risks that could adversely impact its results of operations and cash flow.

Compass' operations are subject to the risks inherent in the oil and natural gas industry, including the risks of:

- fires, explosions and blowouts;
- pipe failures;
- abnormally pressured formations; and
- environmental accidents, such as spills, leaks, ruptures or discharges of natural gas, natural gas liquids, oil, process water, well fluids or other hazardous substances into the environment (including impacts to groundwater).

These events may result in substantial losses to Compass from:

- injury or loss of life;
- severe damage to or destruction of property, natural resources and equipment;
- pollution or other environmental damage;
- environmental clean-up responsibilities;
- regulatory investigation;
- penalties and suspension of operations; or
- attorneys' fees and other expenses incurred in the prosecution or defense of litigation.

As is customary in the oil and gas production industry, Compass is insured against some, but not all, of these risks. Such insurance may not be adequate to cover these potential losses or liabilities. Furthermore, insurance coverage may not continue to be available at commercially acceptable premium levels or at all. Due to cost considerations, from time to time Compass may decline to obtain coverage for certain losses and liabilities, including drilling activities. Losses and liabilities arising from uninsured or under-insured events could require Compass to make large un-budgeted cash expenditures that could adversely impact its results of operations, cash flow and financial condition.

Compass is subject to complex federal, state, local and other laws and regulations that could adversely affect the cost, manner or feasibility of conducting its operations.

Compass' oil and natural gas development and production operations are subject to complex and stringent laws and regulations. In order to conduct its operations in compliance with these laws and regulations, it has obtained and must continue to obtain and maintain numerous permits, approvals and certificates from various federal, state and local governmental authorities. Compass has incurred and is expected to continue to incur substantial costs in order to comply with these laws and regulations. In addition, such costs may increase if existing laws and regulations are revised or reinterpreted, or if new laws and regulations become applicable to Compass' operations.

Compass' business is subject to federal, state and local laws and regulations as interpreted and enforced by governmental authorities possessing jurisdiction over various aspects of the exploration for, and the production and sale of, oil and natural gas. Also see Part I, Item 1. "Business - Our Operating Subsidiaries - Compass - Environmental and Occupational Health and Safety Matters" and "Business - Our Operating Subsidiaries - Compass - Other Regulation of the Oil and Natural Gas Industry". Failure to comply with such laws and regulations, as interpreted and enforced, could have a material adverse effect on Compass' results of operations, cash flows and financial condition.

Compass' hedging strategy may not effectively mitigate the impact of commodity price volatility from its cash flows, and its hedging activities could result in cash losses and may limit potential gains.

The prices at which Compass has, and will in the future, enter into commodity derivative contracts covering its production will be dependent upon oil and natural gas prices, and price expectations, at the time it enters into these transactions, which may be substantially higher or lower than current or future oil and natural gas prices. Accordingly, Compass' price hedging strategy may not protect it from significant declines in oil and natural gas prices received for its future production. Many of the derivative contracts to which it is and will be a party to will require it to make cash payments to the extent the applicable index exceeds a predetermined price, thereby limiting Compass' ability to realize the benefit of increases in oil and natural gas prices. If Compass' actual production and sales for any period is less than its hedged production and sales for that period (including reductions in production due to operational delays) or if Compass is unable to perform its drilling activities as planned, it might be forced to

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satisfy all or a portion of its hedging obligations without the benefit of the cash flow from the sale of the underlying physical commodity, which may materially impact Compass' liquidity.

Compass' hedging transactions will expose it to counterparty credit risk.

Compass' hedging transactions expose it to risk of financial loss if a counterparty fails to perform under a derivative contract. Disruptions in the financial markets could lead to sudden changes in a counterparty's liquidity, which could impair its ability to perform under the terms of the derivative contract and, accordingly, prevent Compass from realizing the benefit of the derivative contract.

Certain U.S. federal income tax deductions currently available with respect to oil and gas exploration and development may be eliminated as a result of future legislation.

President Obama's proposed budgets for fiscal year 2011 through 2015 have included proposed legislation that would, if enacted into law, make significant changes to U.S. tax laws, including the elimination of certain key U.S. federal income tax incentives currently available to oil and natural gas exploration and production companies, such as Compass. These changes include, but are not limited to, (i) the repeal of the percentage depletion allowance for oil and natural gas properties, (ii) the elimination of current deductions for intangible drilling and development costs, (iii) the elimination of the manufacturing deduction for certain domestic production activities, and (iv) an extension of the amortization period for certain geological and geophysical expenditures. It is unclear whether any such changes will be enacted or how soon any such changes could become effective. The passage of any legislation as a result of these proposals or any other similar changes in U.S. federal income tax laws could eliminate certain tax deductions that are currently available with respect to oil and gas exploration and development, and any such change could negatively affect the associated tax benefits otherwise available to Compass or HRG. Consequently, such changes could materially reduce the net return on investment from Compass-related properties.

Climate change regulations could result in increased operating costs and reduced demand for Compass' oil and natural gas production.

Greenhouse gases ("GHGs"), including carbon dioxide, a product of the combustion of natural gas, and methane, a primary component of natural gas, may be contributing to the warming of the Earth's atmosphere, resulting in climatic changes. Federal, state and regional initiatives to reduce GHG emissions may adversely affect Compass' operations. For example, the EPA's so-called GHG tailoring rule imposes federal prevention of significant deterioration (PSD) permit requirements for new sources and modifications, and Title V operating permits for all sources, that have the potential to emit specific quantities of GHGs. Such permitting requirements could require Compass to install controls or implement other measures to reduce GHG emissions from new or modified sources. In addition, the EPA requires certain petroleum and natural gas sources to monitor, document and annually report their GHG emissions. Also see Part I, Item 1. "Business - Our Operating Subsidiaries- Compass -Environmental and Occupational Health and Safety Matters" and Part I, Item 1. "Business - Our Operating Subsidiaries-Compass - Other Regulation of the Oil and Natural Gas Industry". These existing requirements, or any future GHG laws, regulations or permit requirements, could result in increased compliance costs or reduced demand for Compass' oil and gas production, which could negatively affect Compass' results of operations, cash flows and financial condition.

Compass is subject to extensive environmental regulation, which could result in substantial liabilities and expenditures.

Compass is subject to numerous federal, state and local laws, regulations and permit requirements relating to the protection of the environment, including those governing the discharge of materials into the water and air, the generation, management and disposal of petroleum products, process water, well fluids and hazardous substances and wastes and the remediation of contamination. Pursuant to such requirements, Compass could incur material costs and be subject to clean-up costs, fines and civil and criminal sanctions and third-party claims for property damage, natural resources damage and personal injury. Such requirements not only expose Compass to liability for its own activities, but may also expose it to liability for the conduct of others or for actions by Compass that were in compliance with all applicable laws at the time those actions were taken.

In addition, Compass could incur substantial expenditures to comply with current or future environmental laws, regulations and permits. Such environmental requirements have grown more stringent over time. For example, federal and state regulators have become increasingly focused on air emissions associated with the oil and gas industry. On

August 16, 2012, the EPA published a rule that subjects oil and gas operations to new and amended requirements under both the New Source Performance Standards and National Emission Standards for Hazardous Air Pollutants programs of the Clean Air Act. Among other things, the revised requirements imposed emission reduction measures on natural gas processing plants and other oil and gas operations, added reduced emission completion standards applicable to hydraulically fractured gas wells and established maximum achievable control technology standards for certain glycol dehydrators and storage vessels. These requirements will result in increased operating and compliance costs and increased regulatory burdens. Also see Part I, Item 1. “Business - Our Operating Subsidiaries - Compass - Environmental and Occupational Health and Safety Matters” and Part I, Item 1. “Business - Our Operating Subsidiaries - Compass - Other Regulation of the Oil and Natural Gas Industry”.

The liabilities and expenditures of Compass relating to environmental matters could have a material adverse effect on Compass' results of operations, cash flows and financial condition.

Compass may experience a financial loss if any of its significant customers fail to pay it for its oil or natural gas.

Compass' ability to collect the proceeds from the sale of oil and natural gas from its customers is dependent on the payment ability of its customer base, which includes several significant customers. If any one or more of its significant customers fails to pay it for any reason, Compass could experience a material loss. In addition, in recent years, it has become more difficult for oil and gas producers to maintain and grow a customer base of credit-worthy customers because a number of energy marketing and trading companies have discontinued their marketing and trading operations, which has significantly reduced the number of potential purchasers for oil and natural gas production. As a result, Compass may experience a material loss as a result of the failure of its customers to pay it for prior purchases of its oil or natural gas.

Competition in Compass' industry can be intense and it may be unable to compete in acquiring properties, contracting for drilling equipment and hiring experienced personnel.

The oil and natural gas industry is highly-competitive. Compass faces strong competition from other independent operators and from major oil companies in acquiring properties, contracting for drilling equipment and securing trained personnel. Many of these competitors have financial and technical resources and headcount substantially larger than Compass'. As a result, Compass' competitors may be able to pay more for desirable leases, or to evaluate, bid for and purchase a greater number of properties or prospects than Compass' financial or personnel resources will permit. The oil and natural gas industry has periodically experienced shortages of drilling rigs, equipment, pipe and personnel, which has delayed development drilling and other exploitation activities and has caused significant expense/cost increases. Compass may experience difficulties in obtaining drilling rigs and other services in certain areas as well as an increase in the cost for these services and related material and equipment. It is not possible to predict when, or if, such shortages may again occur or how such shortages and price increases will affect Compass' development and exploitation program. Competition can also be strong in hiring experienced personnel, particularly in petroleum engineering, geoscience, accounting and financial reporting, tax and land professions. In addition, competition can be strong for attractive oil and natural gas producing properties, oil and natural gas companies, and undeveloped leases and drilling rights. Compass may be outbid by competitors in its attempts to acquire properties or companies.

If pipelines or other facilities interconnected to Compass' gathering and transportation pipelines and processing facilities become unavailable to transport or process natural gas, Compass' revenues and cash flow could be adversely affected.

Compass has entered into contracts with third parties to obtain access to pipelines and other facilities for the gathering, processing and transportation of its oil and natural gas. Much of the natural gas transported by Compass' pipelines must be treated or processed before delivery into a pipeline for natural gas. If the processing and treating plants to which Compass delivers natural gas were to become temporarily or permanently unavailable for any reason, or if throughput were reduced because of testing, line repair, damage to pipelines, reduced operating pressures, lack of capacity or other causes, Compass' customers would be unable to deliver natural gas to end markets.

Compass operates in a litigious environment.

Compass operates in a litigious environment in which any constituent could bring suit regarding existing or planned operations of Compass or allege a violation of an existing contract or applicable law. Any such action could delay the commencement of planned operations or could cause a halt to existing production until such alleged violations are resolved by the courts. Not only could Compass incur significant legal and support expenses in defending its rights, but halting existing production or delaying planned operations could impact its future operations and financial condition. Such legal disputes can also distract management and other personnel from their primary responsibilities.

If Compass determines to pursue acquisition or reserve development opportunities, Compass may not identify all risks associated with such opportunities, which may result in unexpected liabilities and costs to it.

If Compass determines to pursue acquisition opportunities, it will be required to assess recoverable reserves, title, future oil and natural gas prices, operating costs, potential environmental risks and liabilities, potential tax and ERISA, liabilities, and other liabilities and other similar factors. As is common in the industry and depending on the size of the acquisition, it may not be feasible for Compass to review in detail every individual property involved in an acquisition. For example, for larger acquisitions, the review efforts of Compass may be focused on the higher-valued properties. Even a detailed review of properties and records may not reveal material existing or potential issues or provide Compass with sufficient information to assess fully their deficiencies and capabilities. Such issues, including deficiencies in the mechanical integrity of equipment or environmental conditions, may require significant remedial expenditures and could result in material liabilities and costs that negatively impact Compass' results of operations, cash flow and financial condition. Even if we or Compass are able to identify such issues with an acquisition, the seller may be unwilling or unable to provide effective contractual protection or indemnity against all or part of these problems. Even if a seller agrees to provide indemnity, the indemnity may not be fully enforceable and may be limited by floors and caps on such indemnity.

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If Compass determines to pursue reserve development opportunities, it will faces a number of challenges that may limit its ability to develop or acquire additional oil and gas reserves, including competition, access to capital, prevailing oil and natural gas prices and the number and attractiveness of properties for sale. If Compass is unable to conduct successful development activities or acquire properties containing proved reserves, its total proved reserves will generally decline as a result of production. Also, its production will generally decline. If Compass' reserves and production decline, then the amount it will be able to borrow under the Partnership Credit Facility will also decline, which may further limit its ability to successfully acquire or develop additional reserves. Compass may be unable to locate additional reserves, drill economically productive wells or acquire properties containing proved reserves. If it fails to replace reserves through drilling or acquisitions, its level of production and cash flows will be adversely affected.

If Compass determines engage in acquisition, exploration, development and exploitation activities, it may not identify all the risks associated with such activities, which may result in unexpected liabilities and costs to it.

If Compass determines engage in acquisition, exploration, development and exploitation activities, it will need to assess data obtained from production reports and engineering studies, geophysical and geological analyses and seismic and other information, the results of which are often inconclusive and subject to various interpretations, which could significantly reduce Compass' ability to generate cash needed to service its debt, to fund its capital program and other working capital requirements and to pay distributions to us.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

HRG

HRG leases its headquarters at 450 Park Avenue, 29th Floor, New York, NY 10022. HRG's lease expires in November 2022. Certain of HRG's subsidiaries lease office space through HRG's wholly-owned subsidiary, HGI Funding, at 64 Wooster Street, 3rd Floor, New York, NY 10012. The lease expires in October 2018.

HRG and its subsidiaries, as applicable, believe their existing facilities are suitable and adequate for their present purposes.

Spectrum Brands

The following table lists Spectrum Brands' principal owned or leased manufacturing, packaging, and distribution facilities at September 30, 2015:

Global Batteries and Appliances

Location	Function / Use	Owned / Leased
U.S. Locations		
Fennimore, Wisconsin	Battery Manufacturing	Owned
Portage, Wisconsin	Battery Manufacturing	Owned
Dixon, Illinois	Distribution	Leased
Redlands, California	Distribution	Leased
Non-U.S. Locations		
Dischingen, Germany	Battery Manufacturing	Leased
Washington, UK	Battery Manufacturing	Leased
Guatemala City, Guatemala	Battery Manufacturing	Owned
Jaboatao, Brazil	Battery Manufacturing	Owned
Ellwangen-Neunheim, Germany	Distribution	Leased
Manchester, England	Distribution	Owned
Wolverhampton, England	Distribution	Owned

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Home & Hardware Improvement

Location	Function / Use	Owned / Leased
U.S. Locations		
Charlotte, North Carolina	Manufacturing & Distribution	Leased
Denison, Texas	Manufacturing & Distribution	Owned
Mira Loma, California	Distribution	Leased
Houston, Texas	Manufacturing & Distribution	Leased
Lititz, Pennsylvania	Manufacturing & Distribution	Leased
Elkhart, Indiana	Distribution	Leased
Birmingham, Alabama	Distribution	Leased
Dallas, Texas	Distribution	Leased
Non-U.S. Locations		
Brockville, Canada	Distribution	Leased
Cobourg, Canada	Distribution	Owned
Mexicali, Mexico	Manufacturing	Leased
Nogales, Mexico	Manufacturing	Leased
Shenzhen, China	Distribution	Leased
Chia-Yi, Taiwan	Manufacturing	Leased
Subic Bay, Philippines	Manufacturing	Owned
Xiamen, China	Manufacturing	Leased
Xiolan, China	Manufacturing	Leased

Pet Supplies

Location	Function / Use	Owned / Leased
U.S. Locations		
Noblesville, Indiana	Manufacturing	Owned
Bridgeton, Missouri	Manufacturing	Leased
Blacksburg, Virginia	Manufacturing	Owned
Edwardsville, Illinois	Distribution	Leased
Daleville, Virginia	Distribution	Leased
Non-U.S. Locations		
Melle, Germany	Manufacturing	Owned
Melle, Germany	Distribution	Leased
Phnom Penh, Cambodia	Manufacturing	Leased
Coevorden, Netherlands	Manufacturing	Owned
Bogota, Colombia	Manufacturing	Leased
Leon, Mexico	Manufacturing	Leased
Ambato, Ecuador	Manufacturing	Leased

Home & Garden

Location	Function / Use	Owned / Leased
U.S. Locations		
St. Louis, Missouri	Manufacturing	Leased
Edwardsville, Illinois	Distribution	Leased

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Global Auto Care

Location	Function / Use	Owned / Leased
U.S. Locations		
Garland, Texas	Manufacturing & Distribution	Leased
Mentor, Ohio	Manufacturing & Distribution	Leased
Painesville, Ohio	Manufacturing & Distribution	Owned
Non-U.S. Locations		
Ebbw Vale, Gwent, Wales	Manufacturing & Distribution	Leased
Brentford, Middlesex, England	Distribution	Leased
Tonbridge, Kent, England	Distribution	Leased

Spectrum Brands also owns, operates or contracts with third parties to operate distribution centers, sales offices and administrative offices throughout the world in support of its business. Spectrum Brands leases its administrative headquarters and primary research and development facility located in Middleton, Wisconsin.

Spectrum Brands believes that its existing facilities are suitable and adequate for its present purposes and that the productive capacity in such facilities is substantially being utilized or Spectrum Brands has plans to utilize it.

FGL

FGL leases its headquarters at 601 Locust Street, Des Moines, Iowa, and subleases properties in Baltimore, Maryland and Lincoln, Nebraska for legal, claims and processing needs. Such leases expire December 2020, May 2021 and January 2017 respectively. FGL believes that its existing facilities are suitable and adequate for its present purposes.

Front Street

Front Street leases its headquarters at Sterling House, 16 Wesley Street, Hamilton HM CX, Bermuda. This lease expires in November 2016. Front Street believes its existing facilities are suitable and adequate for its present purposes.

HAMCO

Salus leases its headquarters at 197 First Avenue, Needham Heights, Massachusetts. This lease expires in April 2019. Salus believes its existing facilities are suitable and adequate for its present purposes.

EIC leases its headquarters at 262 Harbor Drive, Stamford, CT 06902. This lease expires in October 2018. EIC believes its existing facilities are suitable and adequate for its present purposes.

CorAmerica leases its headquarters at 1960 E. Grand Avenue, Suite 240, El Segundo, CA 90245. This lease expires in October 2016. CorAmerica believes its existing facilities are suitable and adequate for its present purposes.

Compass

The principal offices of Compass are located at 15601 Dallas Parkway, Suite 900, Dallas, TX 75001. The lease expires in June 2021. Compass believes that its existing facilities are suitable and adequate for its present purposes. Please see Part I, Item 1. “Business-Our Operating Subsidiaries-Compass” for information regarding HGI Energy’s oil and natural gas properties, oil and natural gas preserves, acreage, wells, production and drilling activity.

Item 3. Legal Proceedings

See Part IV, Item 15. “HRG Group, Inc. and Subsidiaries Index of Consolidated Financial Statements-Note 22-Commitments and Contingencies — Legal and Environmental Matters to HRG’s Consolidated Financial Statements” included elsewhere in this report.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Unless otherwise indicated in Part II of this annual report on Form 10-K (this “Form 10-K”) or the context requires otherwise, in this 10-K, references to the “Company,” “HRG,” “we,” “us” or “our” refer to HRG Group, Inc. (formerly, Harbinger Group Inc.) and, where applicable, its consolidated subsidiaries; “Compass” refers to our oil and gas business, which we conduct through Compass Production GP, LLC and Compass Production Partners, LP and their subsidiaries; “CorAmerica” refers to CorAmerica Capital, LLC and where applicable, its consolidated subsidiaries; “EIC” refers to Energy & Infrastructure Capital, LLC and, where applicable, its consolidated subsidiaries; “FGH” refers to Fidelity & Guaranty Life Holdings, Inc. (formerly, Old Mutual U.S. Life Holdings, Inc.) and, where applicable, its consolidated subsidiaries; “FGL” refers to Fidelity & Guaranty Life (formerly, Harbinger F&G, LLC) and, where applicable, its consolidated subsidiaries; “Fiscal 2011” refers to the fiscal year ended September 30, 2011; “Fiscal 2012” refers to the fiscal year ended September 30, 2012; “Fiscal 2013” refers to the fiscal year ended September 30, 2013;“Fiscal 2014” refers to the fiscal year ended September 30, 2014; “Fiscal 2015” refers to the fiscal year ended September 30, 2015; “Front Street” refers to Front Street Re (Delaware) Ltd. and, where applicable, its consolidated subsidiaries; “Front Street Cayman” refers to Front Street Re Cayman Ltd.; “HGI Energy” refers to HGI Energy Holdings, LLC (which holds our interests in Compass) and, where applicable, its consolidated subsidiaries; “HGI Funding” refers to HGI Funding, LLC and, where applicable, its consolidated subsidiaries; “Salus” refers to Salus Capital Partners, LLC and, where applicable, its consolidated subsidiaries; and “Spectrum Brands” refers to Spectrum Brands Holdings, Inc. and, where applicable, its consolidated subsidiaries. For a glossary of certain defined terms relating to Compass’ operations, please see “Part I. Item 1. Business - Compass’ Operating Subsidiaries - Compass - Glossary of selected oil and natural gas terms” in this 10-K.

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the New York Stock Exchange and trades under the symbol “HRG.” The high and low sales prices for our common stock for each quarterly period for the last two years are shown in the following table.

	High	Low
Fiscal 2015		
First Quarter	$14.32	$12.06
Second Quarter	14.22	11.51
Third Quarter	13.69	11.55
Fourth Quarter	14.73	11.16
Fiscal 2014		
First Quarter	$12.14	$9.71
Second Quarter	13.25	11.07
Third Quarter	13.34	10.60
Fourth Quarter	13.40	11.53

We have not declared any dividends since our board of directors discontinued dividend payments in 1998 and we do not anticipate paying dividends on our common stock in the foreseeable future.

As of November 16, 2015, there were approximately 1,590 holders of record of our common stock. This number does not include the stockholders for whom shares are held in a “nominee” or “street” name.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information with respect to compensation plans under which our equity securities are authorized for issuance as of September 30, 2015:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation

	(in thousands) (a)		plans (excluding securities reflected in column (a)) (in thousands) (c)
Equity compensation plans approved by security holders	10,895	$6.22	9,198
Equity compensation plans not approved by security holders	—	—	—
Total	10,895	$6.22	9,198

Our stockholders approved the adoption of the Harbinger Group Inc. 2011 Omnibus Equity Award Plan, as amended, (the “2011 Plan”) pursuant to which incentive compensation and performance compensation awards may be provided to employees, directors, officers and consultants of the Company or of its subsidiaries or their respective affiliates. The 2011 Plan authorizes

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the issuance of up to 24 million shares of common stock, par value $0.01 per share, of the Company. The description of the 2011 Plan above is qualified in its entirety by reference to the full text of the 2011 Plan.

Share Repurchases

On August 8, 2013, we announced that our board of directors had authorized a share repurchase program of up to 50 million shares of our common stock, subject to certain restrictions and provisions. In Fiscal 2013, we repurchased a total of 1.7 million shares under the program, at an aggregate purchase price of $12.3 million.

On May 8, 2014, our board of directors authorized us to enter into a new repurchase program, which replaced our prior share repurchase program. The new share repurchase program authorized us to repurchase up to 100 million shares of our common stock, subject to certain restrictions and provisions. During Fiscal 2015, HRG purchased 1.7 million shares of its outstanding common stock for an aggregate purchase price of $22.2 million under this program. As of September 30, 2015, we had repurchased a total of 6.9 million shares of our common stock, at an aggregate repurchase price of $87.7 million under this program with $12.3 million remaining value of the shares that may yet to be purchased. This program does not have an expiration date, but may be suspended, discontinued, modified and/or reinstated at any time and without prior notice.

2014 Warrant Plan

In March 2014, the Company awarded warrants to its former Chief Executive Officer, representing the right to purchase approximately 3 million shares of our common stock, at an exercise price of $13.125 per share. These warrants were granted following receipt of approval from our stockholders in May 2014. A portion of the warrants, representing 600 thousand shares, vested immediately upon approval of the grant, and the remainder would vest in equal installments on March 10, 2015, 2016, 2017 and 2018. At September 30, 2015, there were 1.8 million warrants outstanding and not yet vested.

Recent Sales of Unregistered Securities

None.

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Item 6. Selected Financial Data

The following table sets forth certain selected historic financial information for the periods and as of the dates presented and should be read in conjunction with our accompanying consolidated financial statements and the related notes thereto referenced in Item 8 of this report and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this report. All amounts are in millions, except for per share amounts.

	Year ended September 30,				
	2015 [1]	2014	2013 [2]	2012	2011 [3]
Income Statement Data:					
Revenues	$5,815.9	$5,963.0	$5,543.4	$4,480.7	$3,477.8
Operating (loss) income [4][5]	(227.8)	569.5	737.4	409.5	163.7
Net (loss) income [6]	(512.4)	101.7	(69.0)	110.7	7.4
Net (loss) income attributable to common and participating preferred stockholders [6]	(556.8)	(83.9)	(94.2)	29.9	22.2
Restructuring and related charges —					
Cost of goods sold [7]	2.1	3.7	10.0	9.8	7.8
Selling, general and administrative expenses [7]	26.6	19.2	24.0	9.8	20.8
Interest expense [8]	(429.7)	(321.9)	(511.9)	(251.0)	(249.3)
(Loss) gain from the change in the fair value of the equity conversion feature of preferred stock	—	(12.7)	(101.6)	(156.6)	27.9
Bargain purchase gain from business acquisition	—	—	—	—	158.3
Gain on contingent purchase price reduction	8.5	0.5	—	41.0	—
Gain upon gaining control of equity method investment	141.2	—	—	—	—
Gain upon deconsolidation of subsidiary [5]	38.5	—	—	—	—
Per Share Data:					
Net (loss) income per common share:					
Basic	$(2.81)	$(0.51)	$(0.67)	$0.15	$0.11
Diluted [9]	(2.81)	(0.51)	(0.67)	0.15	0.09
Weighted average common shares outstanding:					
Basic	198.1	162.9	139.9	139.4	139.2
Diluted [9]	198.1	162.9	139.9	139.8	158.4
Cash Flow and Related Data:					
Net cash provided by operating activities	$283.6	$607.9	$522.3	$622.5	$155.5
Capital expenditures	116.2	98.2	100.1	53.5	38.2
Depreciation and amortization	263.7	302.6	358.7	268.3	95.5
Balance Sheet Data (at year end):					
Cash and cash equivalents	$1,197.0	$1,319.2	$1,899.7	$1,470.7	$1,137.4
Total assets	32,334.1	30,100.2	27,908.8	25,200.5	23,590.9
	6,340.1	5,061.1	4,793.2	2,150.6	2,127.7

Total long-term debt, net of current portion					
Total debt	6,382.7	5,157.8	4,896.1	2,167.0	2,143.8
Total shareholders' equity	1,588.1	2,257.0	1,133.5	1,177.6	895.4

(1) Fiscal 2015 includes the results of the Armored AutoGroup business' operations since May 21, 2015. The Armored AutoGroup business contributed $160.5 million in revenues and recorded an operating profit of $21.8 million for the period from May 21, 2015 through September 30, 2015. Fiscal 2015 also includes $62.1 million of acquisition and integration-related charges, a portion of which was associated with the Armored AutoGroup business acquisition.

(2) Fiscal 2013 includes the results of the Hardware & Home Improvement business' operations since December 30, 2013, and the results of Compass' operations since its inception on February 14, 2013. The Hardware & Home Improvement business contributed $869.6 million in revenues and recorded an operating profit of $88.7 million for the period from December 30, 2012 through September 30, 2013. Compass contributed $90.2 million in revenues and recorded an operating loss of $45.2 million for the period from February 14, 2013 through September 30, 2013. Fiscal 2013 also includes $62.4 million of acquisition and integration-related charges principally associated with the Hardware &Home Improvement business acquisition and the acquisition of Compass.

(3) Fiscal 2011 includes the results of FGH's operations since April 6, 2011. FGH contributed $290.8 million in revenues and recorded an operating loss of $18.0 million for the period from April 6, 2011 through September 30, 2011. Fiscal

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2011 also includes $63.6 million of acquisition and integration-related charges principally associated with the business combination of SBI and Russell Hobbs that created Spectrum Brands (the “SB/RH Merger”) and the acquisition of FGH.

(4) Pursuant to Rule 4-10(c)(4) of Regulation S-X, Compass 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 September 30, 2013, but requested, and received, an exemption from the SEC to exclude the acquisition of these oil and gas properties from the ceiling test assessments for a period of twelve months following the corresponding acquisition dates. During the ceiling test exemption period, Compass assessed the properties for potential impairment due to an other than temporary trend that would negatively impact the fair value. Compass evaluated these properties for impairment using discounted cash flow models based on internally generated oil and natural gas reserves as of September 30, 2013. The pricing utilized in these models was based on NYMEX futures in a manner consistent with the aforementioned pricing for acquisitions. As a result of this evaluation, Compass recognized an impairment of $54.3 million to proved oil and natural gas properties based on the excess of unamortized costs over the fair value of September 30, 2013. The impairment was primarily due to downward revisions in the oil and natural gas reserves due to recent drilling results, modifications to our development plans, and a decline in natural gas futures prices. The ceiling test exemption expired during Fiscal 2014 and Compass recognized impairments of $81.0 million to its proved oil and natural gas properties. For Fiscal 2015, Compass recognized a ceiling test impairment of $485.1 million to its proved oil and natural gas properties, primarily due to the decrease in oil and natural gas prices.

(5) In Fiscal 2015, HRG recorded bad debt expense of $129.5 million related to deterioration in Salus’ asset-based loan portfolio, including $101.0 million related to the RadioShack bankruptcy. HRG also recorded impairments of $60.2 million to goodwill and the intangible assets as a result of the change of strategic direction of FOH. In April 2015, FOH filed for bankruptcy, and any remaining assets and liabilities were deconsolidated. Upon deconsolidation HRG recognized a gain of $38.5 million, primarily resulting from the elimination of FOH’s cumulative historical losses. In Fiscal 2011, Spectrum Brands conducted its annual impairment testing of goodwill and indefinite-lived intangible assets pursuant to the guidance in Financial Accounting Standards Board Codification Topic 350: “Intangibles-Goodwill and Other”, and as a result of these analyses, Spectrum Brands recorded non-cash pretax impairment charges of approximately $32.5 million.

(6) Fiscal 2015, Fiscal 2013 and Fiscal 2011 income tax expense of $71.6 million, $187.3 million, and $50.6 million, respectively, include non-cash charges of approximately $328.6 million, $151.8 million and $72.3 million, respectively, resulting from an increase in the valuation allowance against certain net deferred tax assets. Fiscal 2014 and Fiscal 2012 income tax expense (benefit) of $111.5 million and $(85.3) million, respectively, includes non-cash benefits of approximately $47.4 million and $139.6 million, respectively, resulting from a decrease in the valuation allowance against certain net deferred tax assets.

(7) See Note 20, Restructuring and Related Charges, to our Consolidated Financial Statements included elsewhere in this report for further discussion.

(8) Fiscal 2015, 2014, 2013, 2012 and 2011 interest expense includes charges totaling $58.8 million, $9.2 million, $210.1 million, $31.7 million and $37.5 million, respectively, relating to the refinancing, prepayment and/or amendment of various senior debt. Such charges include cash fees and expenses of $46.0 million, $0.0 million, $181.2 million, $26.4 million and $5.6 million, respectively, and non-cash charges for write-off and accelerated amortization of unamortized debt issuance costs and discount/premium of $12.8 million, $9.2 million, $28.9 million, $5.3 million and $31.9 million respectively.

(9) For Fiscal 2015, there were 2.7 million and 1.3 million weighted-average shares of HRG’s common stock, 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, unvested restricted stock and stock units, and stock options would have been anti-dilutive for Fiscal 2015. Also excluded from the calculation were 1.8 million shares of HRG common stock issuable upon the exercise of warrants awarded in Fiscal 2015 because the exercise price of $13.125 per share was above the average stock price for the year. In Fiscal 2014, diluted weighted average common shares outstanding do not reflect any conversion effect of the Series A Participating Convertible Preferred Stock (“Series A Preferred Shares") and the Series A-2

Participating Convertible Preferred Stock (“Series A-2 Preferred Shares", together with the Series A Preferred Shares, the "Preferred Stock") for the portion of the period that these were outstanding, or the exercise of dilutive common stock equivalents as both would be antidilutive. In Fiscal 2013, diluted weighted average common shares outstanding do not reflect any conversion effect of the preferred stock or the exercise of dilutive common stock equivalents as both would be antidilutive. For Fiscal 2012, diluted weighted average common shares outstanding assumes only the exercise of dilutive common stock equivalents as the conversion effect of preferred stock would be antidilutive. See Note 21, Earnings per Share, to our Consolidated Financial Statements included elsewhere in this report for further details regarding the calculation of net income (loss) per common share.

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Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Introduction

This “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of HRG should be read in conjunction with Item 6, “Selected Financial Data,” and our accompanying consolidated financial statements and related notes (the “Consolidated Financial Statements”) referred to in Item 8 of this Form 10-K. Certain statements we make under this Item 7 constitute “forward-looking statements” under the Private Securities Litigation Reform Act of 1995. See “Forward-Looking Statements” at the beginning of Part I of this Form 10-K. You should consider our forward-looking statements in light of our Consolidated Financial Statements and other financial information appearing elsewhere in this Form 10-K and our other filings with the Securities and Exchange Commission (the “SEC”).

HRG Overview

We are a diversified holding company focused on owning businesses that we believe can, in the long term, generate sustainable free cash flows or attractive returns on investments. As of September 30, 2015, our principal operations were conducted through subsidiaries that offer life insurance and annuity products (FGL), reinsurance services (Front Street), financing and asset management services (Salus, EIC and CorAmerica) and branded consumer products and related businesses (Spectrum Brands), and own and operate oil and natural gas properties (Compass). We also own 97.9% of Zap.Com Corporation (“Zap.Com”), a public shell company that may seek assets or businesses to acquire or may sell assets and/or liquidate. From time to time, we may manage a portion of our available cash and engage in other activities through our wholly-owned subsidiary, HGI Funding.

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

Consumer Products Segment

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

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

Insurance Segment

Through FGL, we are a provider of annuity and life insurance products to the middle and upper-middle income markets in the United States (“U.S.”). With its principal headquarters based in Des Moines, Iowa, and Baltimore, Maryland, FGL operates in the U.S. through its subsidiaries Fidelity & Guaranty Life Insurance Company (“FGL Insurance”) and Fidelity & Guaranty Life Insurance Company of New York (“FGL NY Insurance”). FGL’s principal products are deferred annuities (including fixed indexed annuity (“FIA”) contracts), immediate annuities, and life insurance products, which are sold through a network of independent insurance marketing organizations (“IMOs”) and independent insurance agents.

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

Through Front Street and its Bermuda and Cayman-based life and annuity reinsurers, we seek to add value for cedants through a combination of experienced leadership and customized solutions.

Energy Segment

Through Compass, we own and operate conventional oil and natural gas properties. With its headquarters in Addison, Texas, Compass' primary business objective is to generate stable cash flows over time. Given the inherent decline in the production potential of its existing assets base, Compass also intends to pursue a variety of strategies to generate cash flows and reduce its leverage, including pursuant to acquisition, dispositions and issuance of debt and equity securities.

On February 14, 2013, EXCO Resources, Inc. (“EXCO”) and HGI Energy formed Compass. EXCO contributed to Compass its conventional assets in and above the Canyon Sand formation in the Permian Basin in West Texas as well as in the Holly, Waskom, Danville and Vernon fields in East Texas and North Louisiana. On October 31, 2014, HGI Energy acquired the

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approximately 25.5% remaining interests it did not already hold in Compass from EXCO. The transaction resulted in HRG owning an economic interest of 99.8% in Compass.

Asset Management Segment

Our Asset Management segment includes the activities of our asset-based lender, Salus, and our asset managers, EIC and CorAmerica. During Fiscal 2014, the only asset management agreement of Five Island Asset Management, LLC (“FIAM”), another of our asset managers, was terminated by Front Street and the operations of FIAM were wound down.

Through Salus, we are a provider of asset-based loans to the middle market across a variety of industries. An asset-based loan is a financing tool where the decision to lend is primarily based on the value of a borrower’s collateral. While Salus has developed a variety of processes to value and monitor the collateral related to its loans and maintain its lien position in the collateral securing its loans, there can be no assurance that Salus will not suffer a partial or complete loss if any of the loans become non-performing. As of September 30, 2015, Salus’ loans were funded through capital commitments from Salus' equity, funds committed by FGL Insurance and Front Street Cayman as participants and funds committed by Salus’ collateralized loan obligation (“CLO”) securitization. As of September 30, 2015, Salus, along with its co-lenders FGL Insurance and Front Street Cayman, have funded loans totaling $395.9 million aggregate principal amount outstanding on a consolidated basis. As of September 30, 2015, $125.5 million of Salus’ loans were delinquent in payment and the loan loss allowance established for these loans was $56.6 million.

During Fiscal 2015, following certain organizational changes at Salus, Salus determined to focus its efforts primarily on monitoring, servicing and collecting its existing loans and not to underwrite any new loans. Salus may, however, pursue other opportunities that it may consider strategically advantageous or complimentary to its efforts to collect its existing loans. It is expected that Salus’ operations will significantly diminish as it collects on the loan in its portfolio.

CorAmerica is a commercial real estate lender which originates and acquires both senior and subordinated mortgage loans for commercial and multi-family properties located in the U.S. CorAmerica commenced operations in 2009 and originates and acquires loans on various types of income-producing properties, including apartments, industrial properties, manufactured housing, mixed-use properties, office buildings and retail properties. CorAmerica manages commercial mortgage loans, as well as fixed-income assets based on its assessment of risk-adjusted returns and inefficiencies in the marketplace.

EIC is a debt capital investment manager specializing in direct lending to companies in the North America energy and infrastructure sectors. EIC commenced operations on April 3, 2014 and seeks to provide customized financing solutions by bringing together capital, domain expertise and investment experience to structure customized financing solutions.

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Highlights for Fiscal 2015:

Significant Transactions and Activity

Consumer Products segment

- In October 2014, Spectrum Brands completed the $30.3 million cash acquisition of Tell Manufacturing, Inc. (“Tell”), a leading manufacturer and distributor of commercial doors, locks and hardware.
- In December 2014, Spectrum Brands issued $250.0 million aggregate principal amount of 6.125% unsecured notes due 2024 at par (the “6.125% Notes”) and entered into a new term loan facility in an aggregate principal amount of €150.0 million (the “New Term Loan Facility”).
- On December 31, 2014, Spectrum Brands completed the $115.7 million acquisition, net of working capital adjustments, of Proctor & Gamble’s European pet food business consisting of the IAMS and Eukanuba brands (“European IAMS and Eukanuba”), leading premium brands for dogs and cats.
- On January 16, 2015, Spectrum Brands completed the $146.8 million acquisition, net of working capital adjustments, of Salix Animal Health LLC (“Salix”), the world's leading and largest vertically integrated producer and distributor of premium, natural rawhide dog chews, treats and snacks.
- On May 20, 2015, Spectrum Brands issued $1.0 billion aggregate principal amount of 5.75% unsecured notes due 2024 at par (the “5.75% Notes”).
- On May 21, 2015, Spectrum Brands acquired Armored AutoGroup Parent Inc (“AAG”), the leader in the US automotive aftermarket appearance category. Spectrum financed the acquisition through a combination of the 5.75% Notes issued and a registered offering of $575 million of Spectrum Brands common stock. In the registered offering, HRG acquired 49% of the common stock offered thereby.
- On June 23, 2015, Spectrum Brands refinanced all of its outstanding indebtedness under its existing term loans and asset based lending revolving credit facility (the “Existing Facilities”) with a new senior secured credit facility consisting of term loans in the amount of $1,450.0 million, €300.0 million and CAD $75.0 million (collectively defined as the “Term Loan”) and a $500.0 million revolving credit facility (the “Revolver Facility” and together with the Term Loan, the “New Facilities”). The proceeds from the Term Loan and draws on the Revolver Facility were used to repay Spectrum Brands’ then-existing senior term credit facility (the “Prior Term Loan”), repay Spectrum Brands’ outstanding 6.75% senior unsecured notes (the “6.75% Notes”), repay the Spectrum Brands’ then-existing asset based revolving loan facility (the “Prior Revolver Facility”), and to pay fees and expenses in connection with the refinancing and for general corporate purposes.

Insurance segment

- In November 2014, Front Street Cayman, a wholly-owned subsidiary of HRG, purchased Ability Reinsurance (Bermuda) Limited (“Ability Re”) from Ability Reinsurance Holdings Limited for $19.2 million.
- During Fiscal 2015 Front Street Cayman also closed three additional reinsurance transactions with unaffiliated parties.
- In Fiscal 2015, FGL began a strategic review process for the company. On November 8, 2015, Anbang Insurance Group Co., Ltd. (“Anbang”) entered into a definitive merger agreement to acquire FGL for $26.80 per share (the “FGL Merger”). Pursuant to this agreement, Anbang will acquire all of the outstanding shares of FGL. Stockholders of FGL will receive $26.80 per share in cash at closing. At the date of the transaction, the Company owned 47 million shares, or 80.5% of FGL.

Asset Management segment

- During Fiscal 2015, the bankruptcy court overseeing the Chapter 11 proceedings of RadioShack Corp. (“RadioShack”) approved the sale of 1,743 of the company’s stores to General Wireless Inc., an affiliate of Standard General LP. Salus was the lender under RadioShack’s $250.0 million term loan placed in December 2013 with a net exposure to our Insurance and Asset Management segments of $57.0 million and $93.0 million, respectively after giving effect to a non-qualifying participation of $100.0 million held by a third party that was fully repaid in Fiscal 2015. The extent to which Salus will be able to recover amounts owed to it by RadioShack is dependent on a number of factors, including the results of asset sales, only some of which have been completed to date, and ongoing litigation. The expected recovery on the RadioShack loan, excluding any additional proceeds from ongoing litigation, resulted in an impairment of $101.0 million recognized across our Insurance segment ($40.0 million, after eliminations) and Asset Management segment ($61.0 million) for Fiscal 2015. Salus also recorded additional specific impairments of $32.3

million in Fiscal 2015 primarily related to nine loans where the underlying collateral was underperforming.

- During Fiscal 2015, Salus initiated restructuring of its CLO vehicle via a special redemption of outstanding unaffiliated senior debt tranches in order to reduce the CLO's outstanding leverage and borrowing costs.
- During Fiscal 2015, we acquired additional 34% ownership in CorAmerica for $5.2 million, bringing our total ownership to 51%.

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Energy segment

- On October 31, 2014, our wholly-owned subsidiary, HGI Energy acquired approximately 25.5% interests in Compass from EXCO for $118.8 million in cash, resulting in HGI Energy's ownership interest in Compass increasing to 99.8%. The change in control resulting from the acquisition of EXCO's interest in Compass resulted in the remeasurement of our initial basis in Compass at fair value which increased the Compass' full cost pool by $145.4 million primarily due to the valuation of proved developed and undeveloped oil and natural gas properties.
- During Fiscal 2015, our Energy segment recorded impairments to its oil and natural gas properties of $485.1 million based on the ceiling test limitation under full cost method of accounting. The impairments were primarily due to the decline in oil and natural gas prices as well as the increased full cost pool that resulted from the remeasurement of our initial basis in Compass and the acquisition of EXCO's interest on October 31, 2014.
- In June 2015, Compass completed the $19.2 million sale of certain oil and natural gas properties in Northern Louisiana.
- In October, subsequent to the fiscal year end, Compass entered into an agreement to sell its Holly, Waskom, and Danville assets to a third party for $160.0 million in cash, subject to customary closing conditions and adjustments. The transaction is expected to close on December 1, 2015. Proceeds from the sale are expected to be used to reduce Compass' outstanding debt.

Corporate and Other segment

- On November 25, 2014, the Company announced that Philip Falcone, HRG's then Chief Executive Officer ("CEO") 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 departure, on November 25, 2014, the Company and Mr. Falcone entered into a Separation and General Release Agreement pursuant to which Mr. Falcone was paid $20.5 million as a one-time payment, $16.5 million, which constituted the unpaid portion of Mr. Falcone's Fiscal 2014 annual bonus (in cash, rather than a combination of cash and equity) and $3.3 million, which constituted a pro-rata bonus for Fiscal 2015 (in cash, rather than a combination of cash and equity) for service through December 1, 2014, based on anticipated results.
- On March 6, 2015, HRG appointed Omar Asali, our then President, to the additional position of CEO.
- During Fiscal 2015, we changed our view of the strategic direction of Frederick's of Hollywood ("FOH") following the departure of the Company's former CEO during the first fiscal quarter of 2015, which triggered goodwill and intangibles impairment tests. The tests resulted in total impairments of $60.2 million to goodwill and the intangible assets. On April 19, 2015, FOH commenced a Chapter 11 bankruptcy case in the United States Bankruptcy Court for the District of Delaware.
- As a result of FOHG Holdings, LLC and its subsidiaries (together, "FOHG") bankruptcy filing, the Company deconsolidated FOHG from the Consolidated Financial Statements in the third fiscal quarter of 2015. We recorded a $38.5 million gain on the deconsolidation, mainly as a result of eliminating FOH's cumulative historical losses through April 19, 2015. On June 3, 2015, following receipt of court approval, FOHG sold its brand and inventories to licensing company Authentic Brands Group Inc. with the majority of the proceeds used to repay the loan held by an affiliate.
- On April 14, 2015, HRG issued $100.0 million aggregate principal amount of 7.875% secured notes due 2019 (the "April 2015 7.875% Notes").
- On May 19, 2015, HRG issued $160.0 million aggregate principal amount of 7.875% secured notes due 2019 (the May 2015 7.875% Notes") at 104.50% of par plus accrued interest from January 15, 2015 and $140.0 million aggregate principal amount of 7.75% Senior Notes due 2022 (the "May 2015 7.75% Notes") at 98.51% of par plus accrued interest from January 15, 2015.
- During Fiscal 2015, the Company received $61.6 million from OM Group (UK) Limited ("OMGUK") for the settlement of a $50.0 million purchase price adjustment in connection with HRG's acquisition of FGL's subsidiaries on April 6, 2011, plus interest and attorney's fees and net of $7.6 million for the settlement of a counterclaim related to the financing of certain statutory reserves. The pre-tax income recognized in the Consolidated Statements of Operations for Fiscal 2015 as a result of the settlement was $24.5 million.

Key financial highlights

- Basic and diluted net loss attributable to common and participating preferred stockholders increased $472.9 million to $556.8 million, or $2.81 per basic and diluted common share attributable to controlling interest in Fiscal 2015, compared to basic and diluted net loss attributable to common and participating preferred stockholders of $83.9 million, or $0.51 per basic and diluted common share attributable to controlling interest in Fiscal 2014.
- We ended the year with corporate cash and investments of approximately $331.3 million (primarily held at HRG and HGI Funding).
- Our Consumer Products segment's operating income for Fiscal 2015 decreased $7.8 million, or 1.6%, to $474.1 million from $481.9 million for Fiscal 2014. The decrease in operating income was primarily driven by the transaction costs associated with the AAG Acquisition. Our Consumer Products segment's adjusted earnings before interest, taxes,

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depreciation and amortization ("Adjusted EBITDA - Consumer Products") increased by $76.2 million, or 10.5%, to $800.6 million versus Fiscal 2014 driven by the AAG Acquisition coupled with increased profitability in the home and garden control product line as a result of an increase in sales and product cost improvement initiatives. Adjusted EBITDA margin represented 17.1% of sales as compared to 16.4% in Fiscal 2014.

- Our Insurance segment's operating income for Fiscal 2015 decreased $241.3 million, to $43.5 million from $284.8 million for Fiscal 2014. The decline in operating profit was primarily due to the impairment on the RadioShack loan and related intercompany investments in preferred equity interest in Salus as a result of the RadioShack bankruptcy discussed above, coupled with higher realized gains on available-for-sale ("AFS") securities sold in Fiscal 2014 as part of FGL's Tax Planning Strategy and an increase of the FIA present value of future credits due to a decrease of risk free rates. Partially offsetting these decreases was an increase in net investment income in Fiscal 2015 as well as a decrease in amortization of intangibles resulting from lower gross margins and annual actuarial assumption updates made during the fourth fiscal quarter of 2015. Our Insurance segment's adjusted net income ("Insurance AOI") decreased by $43.3 million, or 28.0%, to $111.2 million versus $154.5 million for Fiscal 2014, primarily due to a $40.1 million benefit from a tax planning strategy, which reduced a tax valuation allowance previously offsetting the Company's capital loss carry forward position during Fiscal 2014, as well as unfavorable mortality experience in the immediate annuity product line and favorable intangible amortization in Fiscal 2014.
- Our Energy segment's operating loss for Fiscal 2015 was $526.6 million compared to $53.7 million for Fiscal 2014. The increase in operating loss was primarily driven by ceiling test impairments of $485.1 million recorded in Fiscal 2015 and lower oil and natural gas prices. The Energy segment's adjusted earnings before interest, taxes, depreciation and amortization ("Adjusted EBITDA - Energy") for Fiscal 2015 was $28.9 million, a decrease of $34.4 million from Fiscal 2014 as a result of depressed energy commodity prices.
- Our Asset Management segment recorded an operating loss of $103.1 million for Fiscal 2015 compared to an operating income of $0.7 million for Fiscal 2014. The decline in operating profit was mainly as a result of the impairment on the RadioShack loan, increases in provision for credit losses on other loans classified as doubtful and higher legal and consulting fees.
- During Fiscal 2015, we received dividends of approximately $65.7 million from our respective subsidiaries, including $41.2 million, $12.2 million, $10.0 million, $2.3 million from our Consumer Products, Insurance, Energy and Asset Management segments, respectively, which does not give effect to the net impact from interest payments made by HRG on behalf of our Energy segment with respect to certain intercompany notes.

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Results of Operations

Fiscal 2015 Compared to Fiscal 2014, and Fiscal 2014 Compared to Fiscal 2013

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

	Fiscal			Increase / (Decrease)	
	2015	2014	2013	2015 compared to 2014	2014 compared to 2013
Revenues:					
Consumer Products	$4,690.4	$4,429.1	$4,085.6	$261.3	$343.5
Insurance	836.2	1,349.7	1,348.4	(513.5)	1.3
Energy	107.4	147.0	90.2	(39.6)	56.8
Asset Management	22.2	34.2	28.9	(12.0)	5.3
Intersegment elimination (a)	117.0	(17.1)	(9.7)	134.1	(7.4)
Consolidated segment revenues	5,773.2	5,942.9	5,543.4	(169.7)	399.5
Corporate and Other	42.7	20.1	—	22.6	20.1
Total revenues	$5,815.9	$5,963.0	$5,543.4	$(147.1)	$419.6
Operating (loss) income:					
Consumer Products	$474.1	$481.9	$351.2	$(7.8)	$130.7
Insurance	43.5	284.8	522.9	(241.3)	(238.1)
Energy	(526.6)	(53.7)	(45.2)	(472.9)	(8.5)
Asset Management	(103.1)	0.7	10.4	(103.8)	(9.7)
Intersegment elimination (a)	75.2	(17.7)	(10.9)	92.9	(6.8)
Total segments	(36.9)	696.0	828.4	(732.9)	(132.4)
Corporate and Other and eliminations	(190.9)	(126.5)	(91.0)	(64.4)	(35.5)
Consolidated operating (loss) income	(227.8)	569.5	737.4	(797.3)	(167.9)
Interest expense	(429.7)	(321.9)	(511.9)	(107.8)	190.0
Loss from the change in the fair value of the equity conversion feature of preferred stock	—	(12.7)	(101.6)	12.7	88.9
Gain on deconsolidation of subsidiary	38.5	—	—	38.5	—
Gain upon gaining control of equity method investment	141.2	—	—	141.2	—
Other income (expense), net	37.0	(21.7)	(5.6)	58.7	(16.1)
Consolidated (loss) income from continuing operations before income taxes	(440.8)	213.2	118.3	(654.0)	94.9
Income tax expense	71.6	111.5	187.3	(39.9)	(75.8)
Net (loss) income	(512.4)	101.7	(69.0)	(614.1)	170.7
Less: Net income (loss) attributable to noncontrolling interest	44.4	112.0	(23.2)	(67.6)	135.2
Net loss attributable to controlling interest	(556.8)	(10.3)	(45.8)	(546.5)	35.5
Less: Preferred stock dividends and accretion	—	73.6	48.4	(73.6)	25.2
	$(556.8)	$(83.9)	$(94.2)	$(472.9)	$10.3

Net loss attributable to common
and participating preferred
stockholders

(a) The Intersegment eliminations represent the reversal and reclassification of impairments recorded in our Insurance segment, as well as intercompany transactions for the period. For Fiscal 2015, the Insurance segment eliminations include the reversal of intercompany assets impairments of $57.1 million. For Fiscal 2015, the Insurance segment eliminations also include a reclassification of $40.0 million of impairments resulting from the RadioShack bankruptcy from Net investment losses to Bad debt expense and the reversal of impairments of $35.4 million already reflected in the Asset Management segment.

Revenues. Revenues for Fiscal 2015 decreased $147.1 million, or 2.5%, to $5,815.9 million from $5,963.0 million for Fiscal 2014. The decrease was primarily due to lower realized and unrealized gains on call options and futures contracts and lower realized gains on the sale of AFS securities in the Insurance segment; the negative impact of foreign exchange in the Consumer Product segment; and lower sales in the Energy segment as a result of the decrease in oil and natural gas prices. Partially offsetting these decreases was sales growth driven by acquisitions in the Consumer Products segment coupled with higher net investment income in the Insurance segment primarily due to asset growth.

Revenues for Fiscal 2014 increased $419.6 million, or 7.6%, to $5,963.0 million from $5,543.4 million for Fiscal 2013. The increase was primarily due to (i) the full period effect of the inclusion of sales from Spectrum Brands' residential hardware and home improvement ("HHI") business that was acquired in Fiscal 2013, coupled with increases in sales of Spectrum Brands' HHI (for comparable periods), home and garden products and consumer batteries product lines, (ii) the full period effect of the inclusion of our proportionate share of oil and natural gas revenues from Compass, and (iii) new sales revenue generated by FOH (acquired during our Fiscal 2014 third quarter) in our Corporate and Other segment. Revenues from our Insurance segment were essentially unchanged, resulting from the offset between higher net investment income (driven by deployment of cash to higher yielding investments and a generally more favorable investing environment), and lower realized net investment gains during Fiscal 2014 (driven by the completion of portfolio repositioning trading activity that occurred during Fiscal 2013 which had generated higher realized investment gains).

Operating (loss) income. Operating loss for Fiscal 2015 was $227.8 million compared to operating income of $569.5 million for Fiscal 2014. The $797.3 million decrease in operating income was mainly due to impairments in our Insurance, Energy, Asset Management and Corporate and Other segments; an increase of the FIA present value of future credits in our Insurance segment; severance payments associated with the departure of the Company's former CEO; and increased costs and lower revenues in our Energy and Asset Management segments.

Operating income for Fiscal 2014 decreased $167.9 million, or 22.8%, to $569.5 million from $737.4 million for Fiscal 2013. The decrease was primarily due to lower operating income originating from our Insurance segment as a result of the conclusion of Fiscal 2013 portfolio repositioning that had resulted in higher realized investment gains in Fiscal 2013, higher corporate expenses primarily due to higher stock based compensation and bonus expense amortization, and the recognition of higher impairment charges in our Energy segment. These decreases in operating income were offset in part by our Consumer Products segment as a result of the full period impact of the HHI acquisition in December 2013, and an overall decrease in acquisition and integration related charges.

Interest expense. Interest expense increased $107.8 million to $429.7 million for Fiscal 2015 from $321.9 million for Fiscal 2014. The increase was primarily due to $58.8 million of non-recurring costs incurred related to the financing of the AAG Acquisition and the refinancing of the Term Loan, Revolver Facility and redemption of the 6.75% Notes. Expenses related to the financing of the AAG Acquisition included $14.1 million of costs related to bridge financing commitments and $4.5 million of costs related to interest on the acquired AAG senior notes from the date of the acquisition through the time of payoff. Expenses related to the refinancing of the Term Loan, Revolver Facility and redemption of the 6.75% Notes included: (i) $16.9 million of cash costs related to the call premium and pre-paid interest on the 6.75% Notes; (ii) $10.4 million of cash costs related to fees associated with the refinancing of the Term Loan; (iii) $8.8 million of non-cash costs for the write-off of unamortized deferred financing fees and original issue discount on the Prior Term Loan and Prior Revolver Facility; and (iv) $4.1 million of non-cash costs for the write off of unamortized deferred financing fees on the 6.75% Notes. Also contributing to the increases in interest expense were higher overall debt levels in the Consumer Products segment and Corporate and Other segment offset in part by refinancing to lower rate debt during fiscal year 2014.

Interest expense decreased $190.0 million to $321.9 million for Fiscal 2014 from $511.9 million for Fiscal 2013. The decrease was primarily due to: (i) the non-recurrence of $181.1 million in penalties, fees and deferred financing fee write-offs incurred in Fiscal 2013 relating to debt refinancing at HRG and Spectrum Brands, and costs incurred by Spectrum Brands associated with the financing of the HHI acquisition; (ii) refinancing to lower interest rate debt during the course of Fiscal 2013, which was offset in part by (iii) higher overall average level of borrowings.

Loss from the change in the fair value of the equity conversion feature of preferred stock. The loss from the change in the fair value of the equity conversion feature of the preferred stock of $12.7 million for Fiscal 2014 was primarily due to an increase in the market price of our common stock from $10.37 to $11.69 per share during Fiscal 2014 through the date of the conversion of our preferred stock on May 15, 2014.

The loss from the change in the fair value of the equity conversion feature of the preferred stock of $101.6 million for Fiscal 2013 was primarily due to an increase in the market price of our common stock from $8.43 to $10.37 per share during Fiscal 2013.

Gain on deconsolidation of subsidiary. The deconsolidation of FOH resulted in a gain of $38.5 million upon the elimination of FOH's cumulative historical losses through April 19, 2015, the date FOHG was filed for bankruptcy.

Gain upon gaining control of equity method investment. The remeasurement to fair value of our holdings in Compass, triggered by our acquisition of the approximately 25.5% remaining interest we did not already hold in Compass, resulted in a gain of $141.2 million.

Other income (expense), net. Other income was $37.0 million for Fiscal 2015 compared to other expense of $21.7 million for Fiscal 2014. The $58.7 million increase was primarily due to oil and natural gas derivative gains as a result of declining oil and natural gas prices coupled with a gain on contingent purchase price reduction and associated interest income as a result of the settlement with OMGUK.

Other expense increased $16.1 million to $21.7 million for Fiscal 2014 from $5.6 million for Fiscal 2013. The change resulted from an increase in losses on certain foreign exchange denominated asset-based loans and unrealized losses on oil and natural gas derivatives. Partially offsetting these increases was a decrease in unrealized losses on HGI Funding's investment portfolio, as compared to Fiscal 2013.

Income Taxes. Our tax rates are affected by many factors, including our mix of worldwide earnings related to operations in various taxing jurisdictions, changes in tax legislation and the character of our income.

For Fiscal 2015, our effective tax rate of (16.2)% differed from the expected U.S. statutory tax rate of 35% and was primarily driven by: (i) pretax losses in certain foreign and U.S. entities and jurisdictions, book revaluation and impairments and bad debt expense in our Insurance, Energy, Asset Management and Corporate and Other segments in the U.S. for which we concluded that a majority of the tax benefits are not more-likely-than-not to be realized, resulting in the recording of valuation allowances and (ii) profitability of FGL’s life insurance subsidiaries which files its own consolidated Federal income tax return. Partially offsetting these items in Fiscal 2015 included: (i) income earned outside the U.S. that is subject to statutory rates lower than 35%; and (ii) recognition of a $22.8 million income tax benefit from the reversal of a portion of Spectrum Brands' U.S. valuation allowance on deferred tax assets in connection with the purchase of AAG. As a result of the AAG Acquisition, Spectrum Brands determined that a portion of its pre-existing deferred tax assets are more likely than not to be realized by the combined entity and a portion of the historical valuation allowance was no longer required. In addition, we recognized a nonrecurring net income tax benefit of $11.7 million attributable to the tax impact related to the impairment of certain FOH indefinite lived intangible assets for which a deferred tax liability was previously recorded. Due to the indefinite life of these assets for book purposes, the related deferred tax liability was not regarded as a source of taxable income to support the realization of deferred tax assets.

For Fiscal 2014, our effective tax rate of 52.3%, differed from the expected U.S. statutory tax rate of 35% and was primarily driven by: (i) pretax losses in the U.S. and some foreign jurisdictions for which the Company concluded that the tax benefits are not more likely-than-not realizable, resulting in valuation allowances; and (ii) the profitability of our life insurance group, which files its own consolidated Federal income tax return. Partially offsetting these items in Fiscal 2014 included: (i) income earned outside the U.S. that is subject to statutory rates lower than 35%; and (ii) the partial release of U.S. valuation allowances related to the life insurance group totaling $40.1 million attributed to the implementation of a tax planning strategy that will allow for the utilization of capital loss carryforwards that management previously concluded were more-likely-than-not unrealizable.

For Fiscal 2013, our effective tax rate of 158.3%, differed from the expected U.S. statutory rate of 35% and was primarily driven by: (i) pretax losses in the U.S. and some foreign jurisdictions for which the Company concluded that the tax benefits are not more likely-than-not realizable, resulting in valuation allowances; and (ii) the profitability of FGL’s life insurance business; (iii) an increase in the fair value of the equity conversion feature of the Preferred Stock with no tax benefit; (iv) tax amortization of certain indefinite lived intangibles; and (v) tax expense on income in certain foreign jurisdictions for which the Company will not receive tax credits in the U.S. due to its tax loss position. Partially offsetting these items was a partial release of U.S. valuation allowances as a result of a recent acquisition by Spectrum Brands.

The majority of U.S. net operating loss (“NOL”), capital loss and tax credit carryforwards of HRG, Spectrum Brands and FGL are subject to valuation allowances, as we concluded all or a portion of the related tax benefits are not more likely-than-not to be realized. Utilization of a portion of the NOL, capital loss and tax credit carryforwards of HRG, Spectrum Brands and FGL are subject to limitations under Internal Revenue Code (“IRC”) Sections 382 and 383. Such limitations resulted from ownership changes of more than 50 percentage points over a three-year cumulative period. These limitations are based on a number of factors, including the value of HRG, FGL and Spectrum Brands’ stock (as defined for tax purposes) on the date of the ownership change, the net unrealized gain position (as defined for tax purposes) of each company on that date, the occurrence of realized gains in years subsequent to the ownership change, and the effects of subsequent ownership changes, if any. While we believe that the consummation of the FGL Merger will result in the reversal of a significant portion of the valuation allowance previously recognized on tax attribute carryforwards that will be realized to offset the expected taxable gain, we cannot provide any assurance of such outcome. See Part I. Item 1A. Risk Factor - Risks Related to HRG - “HRG and certain of its subsidiaries, including Spectrum Brands and FGL, may not be able to fully utilize their net operating loss and other tax carryforward; restrictions in HRG’s Certificate of Incorporation intended to protect net operating losses and other tax attributes may limit transfer of HRG’s Securities.”

Noncontrolling Interest. The net income (loss) attributable to noncontrolling interest reflects the share of the net income (loss)of our subsidiaries, which are not wholly-owned, attributable to the noncontrolling interest. Such amount varies in relation to such subsidiary's net income or loss for the period and the percentage interest not owned by HRG.
Preferred Stock Dividends and Accretion. The preferred stock dividends and accretion consisted of (i) a cumulative quarterly cash dividend at an annualized rate of 8%; (ii) a quarterly non-cash principal accretion, which accrued under certain circumstances; (iii) accretion of the carrying value of our preferred stock, which was discounted by the bifurcated equity conversion feature and issuance costs; and (iv) any gain or loss realized upon the conversion of the preferred stock. As a result of the conversion of the preferred stock in the third quarter of Fiscal 2014, the Company no longer recognizes preferred dividends and accretion.
On May 15, 2014, the Company elected to exercise its option to convert all but one share of the remaining outstanding preferred stock into shares of its common stock. Upon converting the outstanding preferred stock, the Company recognized a loss of $43.9 million. As a result of the conversion of the preferred stock, the Company ceased recognizing any additional dividends and accretion, and is no longer required to compute the Preferred Stock NAV.

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The increase in the preferred stock dividends and accretion for Fiscal 2014 compared to Fiscal 2013 is due to (i) the loss of $43.9 million recognized upon conversion of the preferred stock, offset in part by decreased accretion resulting from the preferred stock being outstanding for only a portion of Fiscal 2014. The non-cash principal accretion rate was at a zero rate of accretion during both Fiscal 2014 and Fiscal 2013.

Consumer Products Segment

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

	Fiscal			Increase / (Decrease)	
	2015	2014	2013	2015 compared to 2014	2014 compared to 2013
Net consumer and other product sales	$4,690.4	$4,429.1	$4,085.6	$261.3	$343.5
Cost of consumer products and other goods sold	3,020.0	2,860.3	2,695.3	159.7	165.0
Consumer products segment gross profit	1,670.4	1,568.8	1,390.3	101.6	178.5
Selling, acquisition, operating and general expenses	1,108.5	1,005.2	961.3	103.3	43.9
Amortization of intangibles	87.8	81.7	77.8	6.1	3.9
Operating income - Consumer Products segment	$474.1	$481.9	$351.2	$(7.8)	$130.7

Revenues. Net consumer products sales for Fiscal 2015 increased $261.3 million, or 5.9%, to $4,690.4 million from $4,429.1 million for Fiscal 2014. The increase in net consumer product sales was primarily due to the impact of the acquisitions of AAG, European IAMS and Eukanuba, Salix and Tell that accounted for $400.0 million, as well as growth in sales in the global pet supplies, small appliances, home and garden control, personal care, and hardware and home improvement product lines. These increases were partially offset by the negative impact of foreign exchange of $229.8 million and a decrease in consumer battery sales. The following table details the principal components of the change in the Consumer Products segment net sales from Fiscal 2014 to Fiscal 2015 (in millions):

	Net Sales
Fiscal 2014 Net consumer and other product sales	$4,429.1
Increase in pet supplies	184.3
Increase in global auto care	160.5
Increase in home and garden control products	42.2
Increase in personal care products	35.5
Increase in hardware and home improvement	60.1
Increase in small appliances products	51.3
Decrease in consumer batteries	(42.8)
Foreign currency impact, net	(229.8)
Fiscal 2015 Net consumer and other product sales	$4,690.4

In addition to $200.1 million of sales driven by the European IAMS and Eukanuba and Salix acquisitions, global pet supplies grew its pet companion products sales primarily in international markets. $39.4 million of the increase in the hardware and home improvement sales was due to the acquisition of Tell with the remaining increase primarily due to growth in domestic security and plumbing sales in the retail channel. Small appliances sales improved due to promotions at current customers and customer gains in Europe and the Asia-Pacific region and continued success of new product launches in North America. The increase in home and garden control sales was driven by distribution gains and strong sales at existing customers and market share gains on certain brands. Personal care sales improved domestically as a result of product display location changes at a major customer, promotional activity and growth of Spectrum Brands' e-commerce channel; in Mexico and throughout the Latin American region due to customer gains; and in Europe as a result of new product sales and continued expansion into Eastern European markets. The decrease in consumer battery sales was mainly due to continued competitor discounting coupled with the bankruptcy of RadioShack, a retail customer of Spectrum Brands, partially offset by an increase in the European sales in alkaline batteries attributed to customer gains and increased volume at existing retailers and private label customers.

Net consumer products sales for Fiscal 2014 increased $343.5 million, or 8.4%, to $4,429.1 million from $4,085.6 million for Fiscal 2013. The increase was primarily due to the full period effect of the inclusion of sales from the HHI acquisition that occurred in Fiscal 2013, and to a lesser extent, increases in sales of Spectrum Brands’ HHI, home and garden products and consumer batteries product lines.

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The following table details the principal components of the change in the Consumer Products segment net sales from Fiscal 2013 to Fiscal 2014 (in millions):

	Net Sales
Fiscal 2013 Net consumer and other product sales	$4,085.6
Increase in hardware and home improvement	296.4
Increase in home and garden control products	41.4
Increase in consumer batteries	28.5
Increase in personal care products	12.1
Decrease in small appliances	(4.5)
Decrease in pet supplies	(22.7)
Foreign currency impact, net	(7.7)
Fiscal 2014 Net consumer and other product sales	$4,429.1

On a pro forma basis, as if the acquisition of the HHI business had occurred at the beginning of Fiscal 2013, HHI sales would increase $104.8 million, or 9.8%, to $1,166.0 million in Fiscal 2014 versus $1,061.2 million in Fiscal 2013. This increase was attributable to the residential security category which accounted for $90.7 million of the increase due to strong retail positioning in North America coupled with the continued recovery of the U.S. housing market. The growth in home and garden products was attributable to increases in repellent product sales and lawn and garden control sales driven by market share gains, the extended selling season due to favorable weather and the acquisition of The Liquid Fence Company ("Liquid Fence"). The increase in consumer batteries sales was primarily due to increased retailer distribution gains, new customers and products, successful promotion activities and geographic expansion. The increases in net consumer sales were offset in part by the decrease in global pet supply sales primarily due to the decline in aquatic sales coupled with a one-time negative impact from product registration issues in Russia during the third quarter of Fiscal 2014 and the planned exit of marginally profitable small appliances products.

Consolidated net sales by product line for each of those respective periods are as follows (in millions):

	Fiscal			Increase (Decrease)	
Product line net sales	2015	2014	2013	2015 compared to 2014	2014 compared to 2013
Hardware and home improvement products	$1,205.5	$1,166.0	$869.6	$39.5	$296.4
Consumer batteries	829.5	957.8	931.7	(128.3)	26.1
Pet supplies	758.2	600.5	621.8	157.7	(21.3)
Small appliances	734.6	730.8	740.3	3.8	(9.5)
Personal care products	528.1	542.1	531.7	(14.0)	10.4
Home and garden control products	474.0	431.9	390.5	42.1	41.4
Global auto care	160.5	—	—	160.5	—
Total net sales to external customers	$4,690.4	$4,429.1	$4,085.6	$261.3	$343.5

Cost of consumer products and other goods sold / Consumer products segment gross profit. Consumer products segment gross profit, representing net consumer products sales minus consumer products cost of goods sold, for Fiscal 2015 was $1,670.4 million compared to $1,568.8 million for Fiscal 2014. Gross profit margin for Fiscal 2015 increased to 35.6% from 35.4% in Fiscal 2014 primarily driven by higher margin sales and continuing cost improvements.

Consumer products segment gross profit, representing net consumer products sales minus consumer products costs of goods sold, for Fiscal 2014 was $1,568.8 million compared to $1,390.3 million for Fiscal 2013. The increase in gross profit was primarily attributable to an increase in sales, particularly the shift towards higher margin sales and continuing cost improvements. Gross profit margin for Fiscal 2014 increased to 35.4% from 34.0% in Fiscal 2013. The increase in gross profit margin was driven by the non-recurrence of a $30.5 million increase to cost of goods sold due to the sale of inventory during Fiscal 2013 that was revalued in connection with the HHI acquisition.

Selling, acquisition, operating and general expenses. Selling, acquisition, operating and general expenses increased by $103.3 million, or 10.3%, to $1,108.5 million for Fiscal 2015, from $1,005.2 million for Fiscal 2014 primarily attributable to an increase of $59.7 million in selling and general and administrative expenses as a result of increased sales and increased acquisition and integration costs of $38.7 million as a result of the acquisitions of AAG, Salix, European IAMS and Eukanuba, and Tell during Fiscal 2015.

Selling, acquisition, operating and general expenses increased by $43.9 million, or 4.6%, to $1,005.2 million for Fiscal 2014 from $961.3 million for Fiscal 2013. The $43.9 million increase was primarily due to the full year inclusion of the HHI operations, partially offset by a decrease in acquisition and related charges as a result of the HHI acquisition in Fiscal 2013.

Acquisition and integration related charges include, but are not limited to, transaction costs such as banking, legal and accounting

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professional fees directly related to acquisitions, termination and related costs for transitional and certain other employees, integration related professional fees and other post business combination related expenses associated with our acquisitions.

Amortization of intangibles. For Fiscal 2015, amortization of intangibles increased $6.1 million, or 7.5%, to $87.8 million from $81.7 million for Fiscal 2014. For Fiscal 2014, amortization of intangibles increased $3.9 million, or 5.0%, to $81.7 million from $77.8 million for Fiscal 2013. The increases were as a result of the additional definite lived intangible assets acquired during Fiscal 2015 and 2014.

Insurance Segment

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

	Fiscal			Increase / (Decrease)	
	2015	2014	2013	2015 compared to 2014	2014 compared to 2013
Insurance premiums	$59.8	$56.6	$58.8	$3.2	$(2.2)
Net investment income	918.3	824.5	715.5	93.8	109.0
Net investment (losses) gains	(235.0)	395.9	511.6	(630.9)	(115.7)
Insurance and investment product fees and other	93.1	72.7	62.5	20.4	10.2
Total Insurance segment revenues	836.2	1,349.7	1,348.4	(513.5)	1.3
Benefits and other changes in policy reserves	625.5	852.7	531.8	(227.2)	320.9
Selling, acquisition, operating and general expenses	125.4	114.7	111.4	10.7	3.3
Amortization of intangibles	41.8	97.5	182.3	(55.7)	(84.8)
Total Insurance segment operating costs and expenses	792.7	1,064.9	825.5	(272.2)	239.4
Operating income - Insurance segment	$43.5	$284.8	$522.9	$(241.3)	$(238.1)

Insurance premiums. Premiums primarily reflect insurance premiums for traditional life insurance products which are recognized as revenue when due from the policyholder. FGL Insurance has ceded the majority of its traditional life business to unaffiliated third party reinsurers. The remaining traditional life business is primarily related to traditional life contracts that contain return of premium riders, which have not been reinsured to third party reinsurers.

For Fiscal 2015, premiums increased $3.2 million, or 5.7%, to $59.8 million from $56.6 million for Fiscal 2014 primarily due to an increase in life-contingent immediate annuity premiums offset by lower traditional life premium from a declining block of business.

For Fiscal 2014, premiums decreased $2.2 million, or 3.7%, to $56.6 million from $58.8 million for Fiscal 2013 primarily due to the non-recurrence of a partial rescission of a coinsurance agreement in Fiscal 2013 which resulted in return of $4.5 million of premiums previously ceded.

Net investment income. For Fiscal 2015, net investment income increased $93.8 million, or 11.4%, to $918.3 million from $824.5 million for Fiscal 2014. The increase was primarily due to higher investment income on fixed maturity and equity AFS securities and commercial mortgage loans driven by higher average assets under management, coupled with an increase in earned yield during Fiscal 2015 as compared to Fiscal 2014. The increase in average assets under management from Fiscal 2014 to Fiscal 2015 was primarily driven by FIA sales growth over the year and stable retention trends.

For Fiscal 2014, net investment income increased $109.0 million, or 15.2%, to $824.5 million from $715.5 million for Fiscal 2013. Fiscal 2013 net investment income was impacted by the Insurance segment's decision in the first quarter of Fiscal 2013 to be defensive with its investment portfolio, given the interest rate environment at the time, reducing the credit and interest rate risk exposures in the portfolio, and shortening the duration of the portfolio relative to its liabilities. In addition, the Insurance segment sold investments that utilized pre-acquisition tax benefits (carryforwards) which resulted in tax free capital gains. These strategies resulted in significant sales of investments during the first quarter of Fiscal 2013. The proceeds from the investment sales, including the tax free gains, were primarily held in cash, cash equivalents and treasury notes, which temporarily lowered investment income until the proceeds were reinvested. The Insurance segment began reinvesting the sales proceeds in September 2013 and the Insurance segment continued its reinvestment strategy into the first quarter of Fiscal 2014. As a result, there was a substantial increase in earned yield during the first half of Fiscal 2014. The Insurance segment's reinvestment strategy resulted in a decrease in average cash and short-term investments from $1.8 billion during Fiscal 2013 to $965.8 million during Fiscal 2014. Furthermore, the Insurance segment reinvested the excess cash and short-term investments into higher yielding assets which resulted in an earned yield of 4.7% during Fiscal 2014 compared to 4.2% during Fiscal 2013.

Average invested assets (on an amortized cost basis) were $18.9 billion, $17.6 billion and $16.6 billion, and the average yield earned on average invested assets was 4.8%, 4.7% and 4.2% for Fiscal 2015, 2014 and 2013, respectively, compared to interest credited and option costs of 2.8%, 2.9% and 3.0% for each such Fiscal year, respectively.

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The Insurance segment's net investment spread is summarized as follows:

	Fiscal			Increase / (Decrease)	
	2015	2014	2013	2015 compared to 2014	2014 compared to 2013
Average yield on invested assets	4.8 %	4.7 %	4.2 %	0.1 %	0.5 %
Less: Interest credited and option cost	2.8 %	2.9 %	3.0 %	(0.1)%	(0.1)%
Net investment spread	2.0 %	1.8 %	1.2 %	0.2 %	0.6 %

The increase in net investment spread for Fiscal 2015 was primarily attributable to portfolio repositioning and re-investment in higher-yielding fixed maturity securities over the past year and lower interest credited and option cost. The increase in net investment spread for Fiscal 2014 was primarily attributable to the re-investment strategy discussed above, which resulted in a decrease in excess liquidity held in low yielding cash and short-term investments and an increase in earned yield and net investment income.

Net investment (losses) gains. For Fiscal 2015, the Insurance segment had net investment losses of $235.0 million compared to net investment gains of $395.9 million for Fiscal 2014. The period over period decrease was primarily due to a $384.8 million decline in net investment gains on call options and futures contracts resulting from the performance of the indices upon which the call options and futures contracts are based as well as timing of call option purchases and expirations. The Insurance segment utilizes a combination of static (call options) and dynamic (long futures contracts) instruments in its hedging strategy. A substantial portion of the call options and futures contracts are based upon the Standard & Poor's 500 Index (the "S&P 500 Index") with the remainder based upon other equity and bond market indices. In addition, during Fiscal 2015, the Insurance segment recorded credit impairment losses primarily related to direct and indirect investments in RadioShack discussed in the introduction section above. There was also a decrease in realized gains on AFS securities attributable to FGL's tax planning strategy adopted during 2014. This strategy resulted in portfolio repositioning sales in Fiscal 2014 to trigger net unrealized built-in gains ("NUBIG") to allow utilization of capital loss carryforwards.

For Fiscal 2014, the Insurance segment had net investment gains of $395.9 million compared to $511.6 million for Fiscal 2013. The period over period decrease was primarily driven by a $227.8 million decrease of net investment gains on fixed maturity and equity AFS securities from Fiscal 2013 to Fiscal 2014. This decrease was primarily a result of the Insurance segment's portfolio repositioning trading activity during Fiscal 2013, pursuant to which the Insurance segment sold certain investments during the first quarter of Fiscal 2013 and utilized pre-acquisition tax benefits (carryforwards), which resulted in tax free capital gains. Partially offsetting this decrease was an increase in net realized and unrealized gains on futures contracts and call options of $102.4 million primarily resulting from the performance of the indices upon which the call options and futures contracts are based.

The components of the realized and unrealized gains on call options and futures contracts are as follows (in millions):

	Fiscal			Increase / (Decrease)	
	2015	2014	2013	2015 compared to 2014	2014 compared to 2013
Call options:					
Gain on option expiration	$124.5	$208.4	$131.2	$(83.9)	$77.2
Change in unrealized gain	(230.8)	37.6	20.4	(268.4)	17.2
Futures contracts:					
(Loss) gain on futures contracts expiration	(5.9)	25.4	17.4	(31.3)	8.0
Change in unrealized gain	(1.1)	0.1	0.1	(1.2)	—
	$(113.3)	$271.5	$169.1	$(384.8)	$102.4
Change in S&P 500 Index during the period	(2.7)%	17.3 %	16.7 %		

The credits for Fiscal 2015, 2014 and 2013 were based on comparing the S&P 500 Index on each issue date in these respective periods to the same issue date in the respective prior year periods. The volatility at different points in these periods created lower overall monthly point-to-point credits in Fiscal 2015 and 2013 compared to the S&P 500 Index growth for issue dates in Fiscal 2014.

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Actual amounts credited to contractholder fund balances may differ from the index appreciation due to contractual features in the FIA contracts (caps, spreads, participation rates and asset fees) which allow the Insurance segment to manage the cost of the options purchased to fund the annual index credits. The average index credits to policyholders were as follows:

	Fiscal			Increase / (Decrease)	
	2015	2014	2013	2015 compared to 2014	2014 compared to 2013
Average Crediting Rate	3.8 %	5.7 %	5.1 %	(1.9)%	0.6 %
S&P 500 Index:					
Point-to-point strategy	4.1 %	4.8 %	5.3 %	(0.7)%	(0.5)%
Monthly average strategy	4.3 %	5.0 %	5.0 %	(0.7)%	— %
Monthly point-to-point strategy	3.0 %	6.8 %	4.6 %	(3.8)%	2.2 %
3 Year high water mark	23.9 %	22.2 %	23.3 %	1.7 %	(1.1)%

Insurance and investment product fees and other. Insurance and investment product fees and other consists primarily of cost of insurance and surrender charges assessed against policy withdrawals in excess of the policyholder's allowable penalty-free amounts (up to 10% of the prior year's value, subject to certain limitations). These fees increased $20.4 million, or 28.1%, to $93.1 million for Fiscal 2015 from $72.7 million for Fiscal 2014 and increased $10.2 million, or 16.3%, to $72.7 million for Fiscal 2014 from $62.5 million for Fiscal 2013 primarily due to an increase in guaranteed minimum withdrawal benefit ("GMWB") rider fees on FIA policies as a result of FIA sales growth over the past year coupled with an increase in cost of insurance charges on indexed universal life ("IUL") due to growth in life insurance sales.

Benefits and other changes in policy reserves. Below is a summary of the major components included in benefits and other changes in policy reserves for Fiscal 2015, 2014 and 2013 (in millions):

	Fiscal			Increase / (Decrease)	
	2015	2014	2013	2015 compared to 2014	2014 compared to 2013
FIA market value option liability	$(237.9)	$56.9	$12.2	$(294.8)	$44.7
FIA present value of future credits and guarantee liability change	109.8	(20.2)	(215.6)	130.0	195.4
Index credits, interest credited and bonuses	562.0	649.4	572.7	(87.4)	76.7
Annuity payments	194.7	209.1	225.2	(14.4)	(16.1)
Other policy benefits and reserve movements	(3.1)	(42.5)	(62.7)	39.4	20.2
Total benefits and other changes in policy reserves	$625.5	$852.7	$531.8	$(227.2)	$320.9

For Fiscal 2015, benefits and other changes in policy reserves decreased $227.2 million, or 26.6%, to $625.5 million, from $852.7 million for Fiscal 2014 principally due to decreases in the FIA market value option liability and index credits, interest credited and bonuses, partially offset by an increase in the FIA present value of future credits and guarantee liability. The FIA market value option liability decreased $237.9 million during Fiscal 2015 compared to a $56.9 million increase during Fiscal 2014. The FIA market value option liability is directly correlated with the change in market value of the derivative assets hedging the Insurance segment's FIA policies. Accordingly, the period over period decrease of $294.8 million was primarily due to the equity market movements during these respective periods (see the net investment gain discussion above for details on the change in market value of the Insurance segment's offsetting derivative assets for the respective periods). The FIA present value of future credits and guarantee liability increased $109.8 million during Fiscal 2015 compared to a $20.2 million decrease during Fiscal 2014. The period over period increase of $130.0 million was primarily driven by a decrease in longer duration risk free rates during Fiscal 2015, which increased reserves by $87.5 million compared to $13.6 million during Fiscal 2014. Additionally, the increase during Fiscal 2015 includes an $18.9 million increase in reserves related to annual actuarial assumption

update which impacted the FIA embedded derivative reserve calculation. Index credits, interest credited and and bonuses decreased $87.4 million period over period primarily due to lower index credits on FIA policies in Fiscal 2015 due to the unfavorable performance of the S&P 500. Comparatively, realized gains on options and futures increased from Fiscal 2013 to Fiscal 2014 which accounted for the increase in FIA index credits year over year. Sales growth of new FIA and deferred annuity policies during Fiscal 2014 also contributed to the year over year increase.
For Fiscal 2014, benefits and other changes in policy reserves increased $320.9 million, or 60.3%, to $852.7 million, from $531.8 million for Fiscal 2013 primarily due to the FIA present value of future credits and guarantee liability change period over period as well as an increase in the FIA market value liability. The FIA present value of future credits and guarantee liability decreased $20.2 million during Fiscal 2014 compared to a $215.6 million decrease during Fiscal 2013. The period over period increase of $195.4 million was primarily driven by an increase in risk free rates during Fiscal 2013, which reduced reserves by $96.8 million compared to a decrease in risk free rates and corresponding reserve increase of $13.6 million during Fiscal 2014. Additionally, annual assumption and model changes were made to the surrender rates and future index credits used in the FIA embedded

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derivative reserve calculation which resulted in a reserve decrease of $84.3 million during the fourth quarter of Fiscal 2013 compared to a reserve decrease of $3.0 million during the fourth quarter of Fiscal 2014. Lastly, index credits, interest credited and bonuses increased $76.7 million period over period primarily due to increased sales of new FIA and deferred annuity policies during Fiscal 2014.

Selling, acquisition, operating and general expenses. Selling, acquisition, operating and general expenses of the Insurance segment, increased $10.7 million, or 9.3%, to $125.4 million for Fiscal 2015, from $114.7 million for Fiscal 2014 primarily due to FGL's strategic review, incentive compensation plans and higher non-deferred acquisition expenses resulting from FIA and IUL sales growth period over period.

Selling, acquisition, operating and general expenses of the Insurance segment increased $3.3 million, or 3.0%, to $114.7 million for Fiscal 2014, from $111.4 million for Fiscal 2013 primarily due to an increase in stock compensation expense as a result of the FGL 2013 Stock Incentive Plan that was adopted on November 7, 2013 in conjunction with FGL's initial public offering. Additionally, the stock compensation expense related to the 2011 and 2012 FGH Plans increased as a result of the appreciation of the FGL's share price since the initial public offering. This increase was partially offset by a one-time $10.3 million settlement in Fiscal 2013 of future trail commissions to one of FGL's long-standing IMOs in Fiscal 2013.

Amortization of intangibles. For Fiscal 2015, amortization of intangibles decreased $55.7 million, or 57.1%, to $41.8 million from $97.5 million for Fiscal 2014. Fiscal 2015 results included favorable unlocking and amortization adjustments of $40.0 million primarily related to annual actuarial assumption updates made during the fourth quarter. Also contributing to the year over year decrease was lower overall gross margins in Fiscal 2015 primarily due to the year over year decrease in net investment (losses) gains.

For Fiscal 2014, amortization of intangibles decreased $84.8 million, or 46.5%, to $97.5 million from $182.3 million, for Fiscal 2013 primarily due to higher product gross margins in Fiscal 2013, which was driven by trading gains on fixed maturity and equity AFS securities and the lower embedded derivative liability, which increased amortization.

Energy Segment

Prior to October 31, 2014, the operating results of Compass represented our 74.4% proportionate interest. Operating results after October 31, 2014 represent 100.0% of Compass' consolidated results. Presented below is a table that summarizes the results of operations of our Energy segment and compares the amount of change between the respective fiscal periods (in millions):

	Fiscal		From Inception to Period Ended September 30,	Increase/ (Decrease)	
	2015	2014	2013	2015 compared to 2014	2014 compared to 2013
Oil and natural gas revenues	$107.4	$147.0	$90.2	$(39.6)	$56.8
Oil and natural gas direct operating costs	85.9	69.6	44.0	16.3	25.6
Oil and natural gas operating margin	21.5	77.4	46.2	(55.9)	31.2
Selling, acquisition, operating and general expenses	63.0	50.1	37.1	12.9	13.0
Impairment of oil and natural gas properties	485.1	81.0	54.3	404.1	26.7
Operating loss - Energy segment	$(526.6)	$(53.7)	$(45.2)	$(472.9)	$(8.5)

Oil and natural gas production, revenues, and prices. During Fiscal 2015, oil and natural gas revenues decreased by $39.6 million, or 26.9%, to $107.4 million compared to $147.0 million for Fiscal 2014. The decrease was primarily due to lower prices of oil, natural gas and natural gas liquids and natural production declines. The decrease was offset in part by additional reported revenues resulting from the acquisition of EXCO's remaining 25.5% interest in Compass on October 31, 2014.

For Fiscal 2014, oil and natural gas revenues increased by $56.8 million, or 63.0%, to $147.0 million compared to $90.2 million for the period from inception to September 30, 2013. The increase was primarily due to the full year inclusion of Compass' results in Fiscal 2014 partially offset by natural production declines.

Direct operating costs and expenses. The Energy segment's oil and natural gas direct operating costs and expenses for Fiscal 2015 were $85.9 million, an increase of $16.3 million from $69.6 million for Fiscal 2014. The increase was primarily due to the acquisition of EXCO's remaining 25.5% interest in Compass partially offset by lower production and ad valorem taxes driven by the declines in production discussed above.

The Energy segment's oil and natural gas direct operating costs and expenses for Fiscal 2014 were $69.6 million, an increase of $25.6 million from $44.0 million for the period from inception to September 30, 2013. This increase was primarily due to the full year inclusion of Compass' results in Fiscal 2014 and partially offset by the implementation of numerous cost savings initiatives, including reducing the Energy segment's salt-water disposal costs and modifying their chemical treating programs for Fiscal 2014.

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Direct operating costs and expenses for Fiscal 2015, Fiscal 2014 and from inception to period ended September 30, 2013 are presented as follows (in millions):

	Fiscal		From Inception to Period Ended September 30,	Increase/ (Decrease)	
	2015	2014	2013	2015 compared to 2014	2014 compared to 2013
Oil and natural gas operating costs	$55.5	$43.2	$27.1	$12.3	$16.1
Gathering and transportation costs	17.1	13.2	7.0	3.9	6.2
Production and ad valorem taxes	13.3	13.2	9.9	0.1	3.3
Total	$85.9	$69.6	$44.0	$16.3	$25.6

Selling, acquisition, operating and general expenses. The Energy segment’s selling, acquisition, operating and general expenses for Fiscal 2015 were $63.0 million, an increase of $12.9 million from $50.1 million for Fiscal 2014 mainly due to the higher reported general and administrative expenses as a result of the acquisition of EXCO’s remaining 25.5% interest in Compass, which were partially offset by a lower depletion rate discussed below.

The Energy segment’s selling, acquisition, operating and general expenses for Fiscal 2014 were $50.1 million, an increase of $13.0 million from $37.1 million for the period from inception to September 30, 2013 primarily due to reporting a full period of expense in Fiscal 2014 versus eight month period in Fiscal 2013, which was partially offset by a decrease in depletion rate caused by the impairments of the oil and natural gas properties, which lowered the Energy segment's depletable base.

Impairment of oil and natural gas properties. The Energy segment recognized ceiling test impairments to its proved oil and natural gas properties of $485.1 million for Fiscal 2015 primarily due to the sharp decline in oil and natural gas prices as well as the acquisition of EXCO’s remaining 25.5% interest in Compass.

The Energy segment recognized a ceiling test impairment of $81.0 million for Fiscal 2014 primarily due to differences in the oil and natural gas prices utilized in the purchase price allocation at the formation of Compass and the prices used in the ceiling test calculation. See Note 2, Significant Accounting Policies and Practices and Recent Accounting Pronouncements, to the accompanying Consolidated Financial Statements for additional information regarding the ceiling test impairments in Fiscal 2015 and 2014.

Impairments of oil and natural gas properties were $54.3 million for the period from inception to September 30, 2013, primarily due to downward revisions in the oil and natural gas reserves due to drilling results, modifications to the Energy segment’s development plans, and a decline in natural gas futures prices.

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Summary of key financial data

A summary of key financial data for Fiscal 2015, Fiscal 2014 and the period from inception to September 30, 2013 related to the results of operations of Compass is presented below.

(dollars in millions, except per unit prices)	Fiscal		For the period from inception to September 30,	Increase / (Decrease)	
	2015	2014	2013	2015 compared to 2014	2014 compared to 2013
Production:					
Oil (Mbbls)	479	414	283	65	131
Natural gas liquids (Mbbls)	606	521	300	85	221
Natural gas (Mmcf)	24,934	20,882	14,570	4,052	6,312
Total production (Mmcfe) (1)	31,447	26,492	18,068	4,955	8,424
Average daily production (Mmcfe)	86	73	79	13	(6)
Revenues before derivative financial instrument activities:					
Oil	$24.6	$38.0	$26.8	$(13.4)	$11.2
Natural gas liquids	12.9	22.7	11.4	(9.8)	11.3
Natural gas	69.9	86.3	52.0	(16.4)	34.3
Total revenues	$107.4	$147.0	$90.2	$(39.6)	$56.8
Oil and natural gas derivative financial instruments:					
Gain (loss) on derivative financial instruments	$25.3	$(6.6)	$(1.3)	$31.9	$(5.3)
Average sales price (before cash settlements of derivative financial instruments):					
Oil (per Bbl)	$51.42	$91.92	$94.63	$(40.50)	$(2.71)
Natural gas liquids (per Bbl)	21.15	43.49	38.11	(22.34)	5.38
Natural gas (per Mcf)	2.80	4.13	3.57	(1.33)	0.56
Natural gas equivalent (per Mcfe)	3.41	5.55	4.99	(2.14)	0.56
Costs and expenses (per Mcfe):					
Oil and natural gas operating costs	$1.77	$1.63	$1.50	$0.14	$0.13
Production and ad valorem taxes	0.42	0.50	0.55	(0.08)	(0.05)
Gathering and transportation	0.54	0.50	0.39	0.04	0.11
Depletion	1.31	1.45	1.67	(0.14)	(0.22)
Depreciation and amortization	0.08	0.06	0.05	0.02	0.01
Interest expense	0.53	0.63	0.57	(0.10)	0.06
General and administrative	0.50	0.31	0.27	0.19	0.04

(1) Mmcfe is calculated by converting one barrel of oil or natural gas liquids into six Mcf of natural gas.

Asset Management Segment

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

	Fiscal			Increase/(Decrease)	
	2015	2014	2013	2015 compared to 2014	2014 compared to 2013
Asset Management segment revenues	$22.2	$34.2	$28.9	$(12.0)	$5.3
Asset Management segment operating costs and expenses	125.3	33.5	18.5	91.8	15.0
	$(103.1)	$0.7	$10.4	$(103.8)	$(9.7)

Operating (loss) income - Asset
Management segment

Asset Management segment revenues. Revenues for Fiscal 2015 decreased $12.0 million to $22.2 million from $34.2 million in Fiscal 2014, primarily due to lower interest revenue on Salus' retained interest in the RadioShack loan for Fiscal 2015 as compared to Fiscal 2014, and coupled with the overall decline in average loans outstanding in the Asset Management segment as a result of paydowns on existing loans and limited origination of new loans during Fiscal 2015. Partially offsetting these decreases was an increase in asset management revenues from CorAmerica and EIC driven by loan origination.

Revenues for Fiscal 2014 increased $5.3 million to $34.2 million from $28.9 million in Fiscal 2013 as a result of an increase in asset-based loans originated and serviced by the operations of Salus during Fiscal 2014.

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Asset Management segment operating costs and expenses. Operating expenses for Fiscal 2015 increased $91.8 million to $125.3 million compared to $33.5 million for Fiscal 2014, primarily due to impairments and bad debt expense of $87.9 million for Fiscal 2015, including $61.0 million related to the RadioShack bankruptcy, and increased legal and consulting fees.

Operating expenses for Fiscal 2014 increased $15.0 million to $33.5 million, from $18.5 million during Fiscal 2013. The increase in operating expenses during Fiscal 2014 was primarily due to an increase in salary and benefits expenses resulting from the addition of employees, start-up costs associated with the formation of EIC and the acquisition of CorAmerica, and to a lesser extent an increase in other overhead costs due to growth in operations, offset in part by higher revenues.

Corporate and Other Segment

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

	Fiscal			Increase / (Decrease)	
	2015	2014	2013	2015 compared to 2014	2014 compared to 2013
Net consumer and other product sales	$42.7	$20.1	$—	$22.6	$20.1
Cost of consumer products and other goods sold	30.9	15.3	—	15.6	15.3
Corporate and Other gross profit	11.8	4.8	—	7.0	4.8
Selling, acquisition, operating and general expenses	142.5	131.3	91.0	11.2	40.3
Impairments of goodwill and intangibles	60.2	—	—	60.2	—
Operating loss - Corporate and Other segment	$(190.9)	$(126.5)	$(91.0)	$(64.4)	$(35.5)

Net consumer and other product sales. Net consumer and other product sales for Fiscal 2015 and 2014 represents sales from FOH which was acquired in the third quarter of Fiscal 2014 and subsequently deconsolidated in the third quarter of Fiscal 2015 following FOH's declaration of bankruptcy in May 2015.

Cost of consumer products and other goods sold / Corporate and Other gross profit. Corporate and Other gross profit for Fiscal 2015 and 2014 of $11.8 million and $4.8 million, respectively, represent FOH sales less consumer products cost of goods sold for Fiscal 2015, representing a gross profit margin of 27.6% and 23.9%, respectively.

Selling, acquisition, operating and general expenses. Selling, acquisition, operating and general expenses increased $11.2 million to $142.5 million for Fiscal 2015 from $131.3 million for Fiscal 2014. The increase was primarily due to the severance costs associated with the departure of the Company's former CEO and other employees of $34.1 million and increased costs related to FOH's bankruptcy filing, partially offset by (i) a decrease in bonus expense of $31.7 million as discussed below; (ii) the non-recurrence of a $6.1 million contingency reserve recorded in Fiscal 2014; (iii) a $2.9 million decrease in acquisition and integrations costs; and (iv) a $2.8 million of reimbursement of legal fees as part of the settlement with OMGUK.

Selling, acquisition, operating and general expenses increased $40.3 million to $131.3 million for Fiscal 2014 from $91.0 million for Fiscal 2013. The $40.3 million increase in corporate expenses for Fiscal 2014 was primarily due to (i) a $15.3 million increase in amortization of unearned stock-based compensation for awards in the current and prior years; (ii) a $11.3 million increase in payroll costs due to the FOH acquisition and increased employee headcount at HRG; (iii) a $6.1 million increase in estimated legal contingency reserve resulting from the OMGUK Summary Judgment related to financing of reserves referred to as "CARVM" matter; (iv) a $5.2 million increase in performance-based bonus expense resulting from exceeding HRG's net asset value ("Compensation NAV") targets determined in accordance with the criteria established by HRG's Compensation Committee (as discussed further below); and (v) an increase in other expenses due to the expansion of our overall operations during Fiscal 2014, including selling, acquisition, operating and general expenses for the operations of FOH subsequent to its acquisition in May 2014. These increases were partly offset by decreases in acquisition and integration related charges, and the cost of directors and officers insurance.

HRG’s Compensation Committee has established annual salary, bonus and equity-based compensation arrangements with certain of HRG’s corporate employees, including performance-based bonus targets based on the achievement of personal performance goals, and performance-based bonus targets based on performance measured in terms of the change in the value of HRG’s Compensation NAV in excess of a 7% hurdle rate. Performance-based bonuses paid based on the growth of the Compensation NAV allow management to participate in a portion of HRG’s performance. HRG’s accrual for these bonus compensation expenses for Fiscal 2015, 2014 and 2013, resulted in a decrease in expense recognized of $31.7 million between Fiscal 2015 and 2014, and a $5.2 million increase between Fiscal 2014 and 2013. These changes reflect the underlying performance of the Compensation NAV, which declined 3.8% in Fiscal 2015 and grew approximately 41.5% and 58.3% in Fiscal 2014 and 2013, respectively.

Impairments of goodwill and intangibles. Impairments of goodwill and intangibles of $60.2 million was recognized in Fiscal 2015. The impairments were due to a change in view of the strategic direction of FOH following the departure of the Company's former CEO during the first fiscal quarter of 2015, which triggered goodwill and intangibles impairment tests. The tests resulted in total impairments of $60.2 million to goodwill and the intangible assets.

Non-US GAAP Measures

We believe that certain non-US GAAP financial measures may be useful in certain instances to provide additional meaningful comparisons between current results and results in prior operating periods. Adjusted EBITDA is a non-GAAP financial measure used in our Consumer Products (“Adjusted EBITDA - Consumer Products”) and Energy (“Adjusted EBITDA - Energy”) segments and one of the measures used for determining Spectrum Brands and Compass’ debt covenant compliance. Insurance AOI is a non-US GAAP financial measure frequently used throughout the insurance industry and is an economic measure the Insurance segment uses to evaluate financial performance each period.

Earnings before interest, taxes, depreciation and amortization (“EBITDA”) represent net income adjusted to exclude interest expense, income taxes and depreciation, depletion and amortization. Adjusted EBITDA excludes certain items that are unusual in nature or not comparable from period to period and other non-recurring operating items, accretion of discount on asset retirement obligations, non-cash changes in the fair value of derivatives, non-cash write-downs of assets, and stock-based compensation. Adjusted EBITDA is a metric used by management and frequently used by the financial community and provides insight into an organization's operating trends and facilitates comparisons between peer companies, since interest, taxes, depreciation and amortization can differ greatly between organizations as a result of differing capital structures and tax strategies. Adjusted EBITDA can also be a useful measure of a company’s ability to service debt. Computations of EBITDA and Adjusted EBITDA may differ from computations of similarly titled measures of other companies due to differences in the inclusion or exclusion of items in our computations as compared to those of others.

Insurance AOI is calculated by adjusting the Insurance segment’s net income to eliminate (i) the impact of net investment gains, including other-than-temporary impairment losses recognized in operations, but excluding gains and losses on derivatives; (ii) the effect of changes in the rates used to discount the FIA embedded derivative liability; (iii) the impact of certain litigation reserves; and (iv) impairments and bad debt expense in subsidiaries. All adjustments to Insurance AOI are net of the corresponding value of business acquired (“VOBA”), deferred acquisition costs (“DAC”) and income tax impact (using an effective tax rate of 35.0% related to these adjustments as appropriate. While these adjustments are an integral part of the overall performance of the Insurance segment, market conditions impacting these items can overshadow the underlying performance of the business. Accordingly, we believe using a measure which excludes their impact is effective in analyzing the trends of our operations and together with net income, we believe Insurance AOI provides a meaningful financial metric that helps investors understand our underlying results and profitability.

Non-US GAAP measures such as Insurance AOI should not be used as a substitute for reported net income. However, we believe the adjustments made to net income in order to derive AOI are significant to gaining an understanding of the Insurance segment's overall results of operations. For example, the Insurance segment could have strong operating results in a given period, yet report net income that is materially less, if during such period the fair value of the derivative assets hedging the FIA index credit obligations decreased due to general equity market conditions but the embedded derivative liability related to the index credit obligation did not decrease in the same proportion as the derivative assets because of non-equity market factors such as interest rate movements. Similarly, the Insurance segment could also have poor operating results in a given period yet show net income that is materially greater, if during such period the fair value of the derivative assets increases but the embedded derivative liability did not increase in the same proportion as the derivative assets. FGL hedges FIA index credits with a combination of static and dynamic strategies, which can result in earnings volatility, the effects of which are generally likely to reverse over time. Management and FGL’s board of directors review Insurance AOI and net income as part of their examination of the Insurance segment’s overall financial results. However, these examples illustrate the significant impact derivative and embedded derivative movements can have on the Insurance segment’s net income. Accordingly, management and the board of directors of FGL perform a review and analysis of these items, as part of their review of hedging results each period.

The adjustments to net income are net of DAC and VOBA amortization and income tax expense related to these adjustments. Amounts attributable to the fair value accounting for derivatives hedging the FIA index credits and the related embedded derivative liability fluctuate from period to period based upon changes in the fair values of call options purchased to fund the annual index credits for FIAs, changes in the interest rates used to discount the embedded derivative liability, and the fair value assumptions reflected in the embedded derivative liability. The accounting standards for fair value measurement require the discount rates used in the calculation of the embedded derivative liability to be based on risk-free interest rates. The impact of the change in risk-free interest rates has been removed from net income.

While management believes that non-US GAAP measurements are useful supplemental information, such adjusted results are not intended to replace the Company's US GAAP financial results. EBITDA, Adjusted EBITDA and Insurance AOI are measures that are not prescribed by generally accepted accounting principles, or GAAP. EBITDA and Adjusted EBITDA specifically exclude changes in working capital, capital expenditures and other items that are set forth on a cash flow statement presentation of a company's operating, investing and financing activities. As such, we encourage investors not to use these measures as substitutes for the determination of net income, net cash provided by operating activities or other similar GAAP measures.

Adjusted EBITDA — Consumer Products

The table below shows the adjustments made to the reported net income (loss) of the Consumer Products segment to calculate its Adjusted EBITDA (in millions):

	Fiscal		
Reconciliation to reported net income (loss):	2015	2014	2013
Reported net income (loss) - Consumer Products segment	$149.4	$214.5	$(55.3)
Add back:			
Interest expense	271.9	202.1	375.6
Income tax expense	43.9	59.0	27.4
Purchase accounting fair value adjustment	21.7	—	31.0
Pre-acquisition earnings of HHI Business	—	—	30.3
Restructuring and related charges	28.7	22.9	34.0
Acquisition and integration related charges	58.8	20.1	48.4
Venezuela devaluation	2.5	—	2.0
Other	6.1	1.3	—
Adjusted EBIT - Consumer Products segment	583.0	519.9	493.4
Depreciation and amortization, net of accelerated depreciation			
Depreciation of properties	82.2	76.0	62.0
Amortization of intangibles	87.8	81.7	77.8
Stock-based compensation	47.6	46.8	43.9
Adjusted EBITDA - Consumer Products segment	$800.6	$724.4	$677.1

For Fiscal 2015, our Consumer Products segment’s Adjusted EBITDA increased $76.2 or 10.5% to $800.6 million as compared to $724.4 million for Fiscal 2014 driven by $47.3 million attributable to AAG's operations coupled with increased profitability in the Home and Garden product line as a result of an increase in net sales to external customers and product cost improvements initiatives. Adjusted EBITDA margin represented 17.1% of sales as compared to 16.4% in Fiscal 2014.

Our Consumer Products segment’s Adjusted EBITDA increased $47.3 million, or 7.0%, to $724.4 million for Fiscal 2014 from $677.1 million for Fiscal 2013 (including pre-acquisition earnings of the Hardware acquisition of $30.3 million). The increase in Adjusted EBITDA was primarily a result of (i) the increase in net sales in the HHI, consumer batteries, personal care and home and garden product lines; coupled with (ii) cost and operating expense improvements in the consumer batteries, pet supplies, personal care and home and garden product lines. These increases were partially offset by (i) unfavorable product mix and pricing pressures in the U.S. and Europe for the consumer batteries and small appliances product lines; and (ii) decreased sales and unfavorable product mix in the pet supplies and product line.

Adjusted Operating Income — Insurance

The table below shows the adjustments made to the reported net (loss) income of the Insurance segment to calculate Insurance AOI (in millions):

	Fiscal		
Reconciliation to reported net (loss) income :	2015	2014	2013
Reported net (loss) income - insurance segment	$(93.7)	$202.3	$350.2
Effect of investment losses (gains), net of offsets	77.9	(54.5)	(161.2)
Effect of change in FIA embedded derivative discount rate, net of offsets	39.5	5.7	(34.8)
Impairments and bad debt expense from subsidiary, net of offsets	87.9	—	—
Effects of certain litigation reserves, net of offsets	(0.4)	1.0	—
Adjusted operating income - Insurance segment	$111.2	$154.5	$154.2

Insurance AOI decreased $43.3 million to $111.2 million for Fiscal 2015, or 28.0%, from $154.5 million for Fiscal 2014 primarily due to a $40.1 million benefit from the aforementioned tax planning strategy, which reduced the deferred tax valuation allowance previously offsetting the Company's capital loss carry forward position in Fiscal

2014. Partially offsetting this decrease were approximately $16.1 million of net favorable adjustments primarily related to annual actuarial assumption review and prepayment income. Also included in Fiscal 2015 results were net unfavorable adjustments of $14.8 million primarily related to mortality experience on life contingent immediate annuity polices as well as incentive compensation and strategic review related expenses.
For Fiscal 2014, Insurance AOI increased $0.3 million to $154.5 million, or 0.2%, from $154.2 million for Fiscal 2013. In Fiscal 2014, Insurance AOI was positively impacted by an increase in net investment income of $70.9 million, as well as the valuation allowance release of $40.1 million discussed above. Insurance AOI remained relatively flat compared to prior year as Fiscal

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2013 results were also positively impacted by (i) annual assumption changes made to the surrender rates, earned rates and future index credits used in the FIA embedded derivative reserve calculation which resulted in a reserve decrease of $56.2 million during the fourth quarter of Fiscal 2013, net of related DAC and VOBA amortization and unlocking impact; (ii) immediate annuity mortality gains of $23.6 million during Fiscal 2013 caused by large case death; and (iii) a valuation allowance release of $15.9 million.

Adjusted EBITDA — Energy

The table below shows the adjustments made to the reported net loss of the Energy segment to calculate its Adjusted EBITDA - Energy (in millions):

Reconciliation to reported net loss:	Fiscal 2015	Fiscal 2014	Period from inception to September 30, 2013
Reported net loss- Energy segment	$(378.6)	$(76.9)	$(56.8)
Interest expense	18.9	16.7	10.3
Depreciation, amortization and depletion	43.4	39.9	31.0
EBITDA - Energy segment	(316.3)	(20.3)	(15.5)
Accretion of discount on asset retirement obligations	2.8	2.0	1.2
Impairments and bad debt expense	485.1	81.0	54.3
Gain on remeasurement of investment to fair value	(141.2)	—	—
Non-recurring other operating items	2.6	0.2	0.1
(Gain) loss on derivative financial instruments	(25.3)	6.6	1.3
Cash settlements on derivative financial instruments	20.6	(6.2)	(1.8)
Stock based compensation expense	0.6	—	—
Adjusted EBITDA - Energy segment	$28.9	$63.3	$39.6

The Adjusted EBITDA-Energy for Fiscal 2015 was $28.9 million, a decrease of $34.4 million from Fiscal 2014. The decrease was primarily attributable to the decline in average sales price for oil and natural gas during Fiscal 2015 coupled with natural production declines, offset in part by our higher ownership in Compass subsequent to purchasing the remaining 25.5% interest from EXCO.

The Adjusted EBITDA-Energy for Fiscal 2014 was $63.3 million, an increase of $23.7 million for the period from inception to September 30, 2013 primarily due to the full year inclusion of Compass’ results in Fiscal 2014.

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Liquidity and Capital Resources

HRG

HRG is a holding company and its liquidity needs are primarily for interest payments on the 7.875% Senior Notes due 2019 (the "7.875% Notes") and the 7.75% Notes due 2022 (the "7.75% Notes") (approximately $137.1 million per year), professional fees (including advisory services, legal and accounting fees), executive bonuses, salaries and benefits, office rent, pension expense, insurance costs and funding certain requirements of our insurance and other subsidiaries. HRG's current source of liquidity is its cash, cash equivalents and investments, and distributions from our subsidiaries. During Fiscal 2015, we received $65.7 million in cash dividends from our Consumer Products, Insurance, Energy and Asset Management segments ($41.2 million, $12.2 million, $10.0 million and $2.3 million, respectively). The dividends received to date are before giving effect to $9.0 million of interest payments made by HRG on behalf of HGI Energy with respect to the Affiliate Notes (as defined below). We expect to receive approximately $51.3 million of dividends from our subsidiaries' distributable earnings before giving effect to the $9.0 million of interest payments to be made by HRG on behalf of HGI Energy, during Fiscal 2016, with respect to the Affiliate Notes. The decrease in expected dividends from our subsidiaries is attributable to the recent instability in oil and gas prices, recent changes impacting our Asset Management segment, and the expected closing of the FGL Merger in the third quarter of Fiscal 2016.

The ability of HRG's subsidiaries to generate sufficient net income and cash flows to make upstream cash distributions is subject to numerous factors, including restrictions contained in such subsidiary's financing agreements, availability of sufficient funds in such subsidiary, applicable state laws and regulatory restrictions and the approval of such payment by such subsidiary's board of directors, which must consider various factors, including general economic and business conditions, tax considerations, strategic plans, financial results and condition, expansion plans, any contractual, legal or regulatory restrictions on the payment of dividends, and such other factors such subsidiary's board of directors considers relevant including, in the case of FGL, target capital ratios and ratio levels anticipated by regulatory agencies to maintain or improve current ratings (see "FGL" below for more detail). As discussed elsewhere herein, while the agreements governing the FGL Merger permit FGL to pay out a regular quarterly cash dividend on its common stock in an amount not in excess of $0.065 per share, per quarter, FGL may not pay any other dividends without the consent of Anbang. In addition, if the FGL Merger is consummated, while we will receive the proceeds from the sale of our shares of FGL common stock, we will no longer receive dividends from FGL. Furthermore, one or more of our subsidiaries may issue, repurchase, retire or refinance, as applicable, their debt and/or equity securities for a variety of purposes, including in order to, in the future, grow their business, pursue acquisition activities and/or manage their liquidity needs. Any such issuance may limit such subsidiary's ability to make upstream cash distributions.

HRG's liquidity may also be impacted by the capital needs of HRG's current and future subsidiaries. Such entities may require additional capital to acquire other business, maintain or grow their businesses, or make payments on their indebtedness, and/or make upstream cash distributions to HRG. For example, and as discussed further before, Compass may require additional capital if current period earnings and cash on hand at Compass are not sufficient to reduce debt levels and remain compliant with applicable covenant in Compass' financing agreement. As another example, Front Street, has required, and may in the future require, additional capital in order to operate its business, engage in reinsurance transactions, and/or to meet regulatory or other applicable capital requirements. Similarly, Salus, has required, and may in the future require, additional capital in order to operate its business and execute on its strategy to collect its existing loans and not underwrite any additional loans.

We expect our cash, cash equivalents and investments to continue to be a source of liquidity except to the extent they may be used to fund investments in operating businesses or assets. At September 30, 2015, HRG's corporate cash, cash equivalents and investments were $331.3 million.

We expect such dividends along with our cash on hand, cash equivalents and investments to exceed our expected cash requirements and to satisfy our interest obligations, and general administrative expenses for at least the next twelve months. Depending on a variety of factors, including general state of capital markets, oil and gas commodity prices, operating needs or acquisition size and terms, HRG and its subsidiaries may or may be required to raise additional capital through the issuance of equity, debt, or both. There is no assurance, however, that such capital will be available

at that time, in the amounts necessary or on terms satisfactory to HRG. We seek to service any such new additional debt through increasing the dividends we receive, but there can be no assurance that we will be able to do so. We may also seek to repurchase, retire or refinance, as applicable, all or a portion of, our 7.875% Notes, the 7.75% Notes, or common stock through open market purchases, tender offers, negotiated transactions or otherwise.
As a result of the recent decline in commodity prices, Compass' consolidated funded indebtedness to its forecasted fiscal year 2016 consolidated total of earnings before tax, interest, depreciation, depletion and amortization and exploration expenses ("EBITDAX") is projected to exceed (prior to giving effect to the Compass Asset Sale) the maximum ratio (the "Debt to EBITDAX Covenant") that would be allowed under the Compass Credit Agreement during such fiscal year. As discussed in Note 29, Subsequent Events, on November 13, 2015, Compass entered into an amendment to the revolving credit agreement entered into by Compass (the "Compass Credit Agreement") and concurrently with such amendment HGI Funding, a wholly-owned subsidiary of the Company, entered into an agreement pursuant to which it continued to provide a guarantee (the "Initial Guarantee") of a limited portion of the debt under the Compass Credit Agreement until the date of Compass' next borrowing

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base redetermination (which is scheduled to occur in the third fiscal quarter of calendar 2016) and committed to make a debt or equity contribution to Compass on such date in an amount to be determined (subject to the cap described below) based on the amount of the borrowing base at such time (the “Initial Secured Amount”). The guarantee was also amended to provide that HGI Funding may at its option cure defaults under the Debt to EBITDAX Covenant by voluntarily guaranteeing (the “Optional Guarantee”) an additional portion of the outstanding debt under the Compass Credit Agreement (the “Optional Secured Amount” and together with the Initial Secured Amount, the “Secured Amount”). HGI Funding is required to make a debt or equity contribution to Compass in the amount (if any) of the Optional Guarantee outstanding at such time within eleven business days of the delivery of Compass’s compliance certificate under the Compass Credit Agreement for the period ending September 30, 2016 (the “Optional Guarantee Payment Date”). The Secured Amount is secured by a pledge of assets chosen by the Company that may consist of a combination of cash and marketable securities with a determined value equal to the maximum Secured Amount then applicable. In measuring the determined value of the pledged assets, cash is valued at 100% and marketable securities are valued at 50.0% of fair market value through January 3, 2016 and 33.3% of fair market value thereafter (measured as the 20 day average close price of such marketable securities).

Through December 15, 2015 (or the Compass Asset Sale close date, whichever occurs first), HGI Funding’s aggregate obligations in connection with the Initial Guarantee and related contributions are not to exceed $110.0 million. HGI Funding’s aggregate obligations in connection with the Initial Guarantee subsequent to December 15, 2015 and through the June 2016 borrowing base redetermination date are (i) not to exceed $30.0 million upon closing the Compass Asset Sale and the corresponding reduction of the borrowing base under the Compass Credit Agreement by $145.0 million ; or (ii) not to exceed $65.0 million prior to the closing of the Compass Asset Sale in conjunction with a reduction of the borrowing base under the Compass Credit Agreement by $45.0 million if the Compass Asset Sale has not closed by December 15, 2015.

The expiration date of the Initial Guarantee occurs upon the closing of Compass’ scheduled borrowing base redetermination in June 2016. The expiration date of the Optional Guarantee occurs upon the making of all required payments on the Optional Guarantee Payment Date. Compass is presently current on all obligations related to the Compass Credit Agreement. The Compass Credit Agreement matures on February 14, 2018.

Spectrum Brands

Spectrum Brands expects to fund its cash requirements, including capital expenditures, dividend, interest and principal payments due in Fiscal 2016 through a combination of cash on hand ($247.9 million at September 30, 2015), cash flows from operations and available borrowings under the asset based lending revolving credit facility (the “Revolver Facility”). Spectrum Brands expects its capital expenditures for Fiscal 2016 will be approximately $110.0 million to $120.0 million. Going forward, its ability to satisfy financial and other covenants in its senior credit agreements and senior unsecured indentures and to make scheduled payments or prepayments on its debt and other financial obligations will depend on its future financial and operating performance. There can be no assurances that its business will generate sufficient cash flows from operations or that future borrowings under Spectrum Brands’ debt agreements, including the Revolver Facility, will be available in an amount sufficient to satisfy its debt maturities or to fund its other liquidity needs.

At September 30, 2015, based on Spectrum Brands’ current tax strategy, there are no significant foreign cash balances available for repatriation. For Fiscal 2016, Spectrum Brands expects to generate between $75.0 million and $125.0 million of foreign cash that it anticipates will be repatriated for general corporate purposes.

From time to time we or Spectrum Brands may purchase outstanding securities of Spectrum Brands or its subsidiaries, in the open market or otherwise.

FGL

FGL conducts all its operations through operating subsidiaries. FGL's principal sources of cash flow from operating activities are insurance premiums and fees and investment income, while sources of cash flows from investing activities result from maturities and sales of invested assets. In addition, FGL may issue debt and/or equity in the future to grow its business and/or pursue acquisition activities.

The liquidity requirements of FGL's regulated insurance subsidiaries principally relate to the liabilities associated with their various insurance and investment products, operating costs and expenses, the payment of dividends to FGL and income taxes. Liabilities arising from insurance and investment products include the payment of benefits, as well as cash payments in connection with policy surrenders and withdrawals, policy loans and obligations to redeem funding agreements.

FGL's insurance subsidiaries have used cash flows from operations and investment activities to fund their liquidity requirements. FGL's insurance subsidiaries' principal cash inflows from operating activities are derived from premiums, annuity deposits and insurance and investment product fees and other income. The principal cash inflows from investment activities result from repayments of principal, investment income and, as necessary, sales of invested assets.

FGL's insurance subsidiaries maintain investment strategies intended to provide adequate funds to pay benefits without forced sales of investments. Products having liabilities with longer durations, such as certain life insurance, are matched with investments having similar estimated lives such as long-term fixed maturity securities. Shorter-term liabilities are matched with fixed maturity

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securities that have short- and medium-term fixed maturities. In addition, FGL's insurance subsidiaries hold highly liquid, high-quality short-term investment securities and other liquid investment grade fixed maturity securities to fund anticipated operating expenses, surrenders and withdrawals.
The ability of FGL's subsidiaries to pay dividends and to make such other payments is limited by applicable laws and regulations of the states in which its subsidiaries are domiciled, which subject its subsidiaries to significant regulatory restrictions. These laws and regulations require, among other things, FGL's insurance subsidiaries to maintain minimum solvency requirements and limit the amount of dividends these subsidiaries can pay. Along with solvency regulations, the primary driver in determining the amount of capital used for dividends is the level of capital needed to maintain desired financial strength ratings from the rating agencies. In that regard, FGL may limit dividend payments from its major insurance subsidiary to the extent necessary for its risk based capital ratio to be at a level anticipated by the ratings agencies to maintain or improve its current rating. FGL's insurance subsidiaries paid no dividends in Fiscal 2015. Regulators and rating agencies could become more conservative in their methodology and criteria, including increasing capital requirements for FGL's insurance subsidiaries which, in turn, could negatively affect the cash available to FGL from its insurance subsidiaries and, in turn, to us. FGL monitors its insurance subsidiaries' compliance with the risk based capital requirements specified by the National Association of Insurance Commissioners (the "NAIC"). As of September 30, 2015, each of FGL's insurance subsidiaries has exceeded the minimum risk based capital requirements.

Financial Condition
The types of assets in which the Insurance segment may invest are influenced by various state laws, which prescribe qualified investment assets applicable to insurance companies. Within the parameters of these laws, the Insurance segment invests in assets giving consideration to four primary investment objectives: (i) maintain robust absolute returns; (ii) provide reliable yield and investment income; (iii) preserve capital and (iv) provide liquidity to meet policyholder and other corporate obligations. The Insurance segment's investment portfolio is designed to contribute stable earnings and balance risk across diverse asset classes and is primarily invested in high quality fixed income securities.
As of September 30, 2015 and 2014, the carrying value of the Company's investment portfolio was approximately $19.1 billion and $19.3 billion, respectively, and was divided among the following asset classes (in millions):

	September 30, 2015			September 30, 2014		
Asset Class	Fair Value	Percent		Fair Value	Percent	
Corporates	$9,544.7	49.9	%	$9,795.8	50.9	%
Residential mortgage-backed securities	2,162.5	11.3	%	2,114.0	11.0	%
Asset-backed securities	1,860.5	9.7	%	1,792.9	9.3	%
Municipals	1,607.6	8.4	%	1,259.8	6.5	%
Hybrids	1,213.3	6.3	%	1,316.1	6.9	%
Commercial mortgage-backed securities	882.2	4.6	%	636.9	3.3	%
Equities (a)	649.4	3.4	%	768.1	4.0	%
Commercial mortgage loans	489.6	2.6	%	136.2	0.7	%
Asset-based loans	335.8	1.9	%	811.6	4.2	%
U.S. Government	244.0	1.3	%	296.0	1.5	%
Derivatives	81.9	0.4	%	296.3	1.5	%
Other (primarily policy loans and other invested assets)	39.6	0.2	%	28.8	0.2	%
Total investments	$19,111.1	100.0	%	$19,252.5	100.0	%

(a) Includes investment grade non-redeemable preferred stocks ($523.2 million and $538.4 million, respectively) and Federal Home Loan Bank of Atlanta common stock ($35.5 million and $38.4 million, respectively).
Fixed Maturity Securities

Insurance statutes regulate the type of investments that our subsidiary FGL is permitted to make and limit the amount of funds that may be used for any one type of investment. In light of these statutes and regulations, and FGL's business and investment strategy, FGL generally seeks to invest in (i) corporate securities rated investment grade by established nationally recognized statistical rating organizations (each, a nationally recognized statistical rating organization ("NRSRO")), (ii) U.S. Government and government-sponsored agency securities, or (iii) securities of comparable investment quality, if not rated.

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As of September 30, 2015 and 2014, the Insurance segment's fixed maturity AFS portfolio was approximately $17.5 billion and $17.2 billion, respectively. The increase in B and below securities from September 30, 2014 to September 30, 2015 was primarily due to the additional investment in non-agency residential mortgage-backed securities ("RMBS") securities that carry a NAIC investment grade designation.
The following table summarizes the credit quality, by NRSRO rating, of FGL's fixed income portfolio (in millions):

	September 30, 2015		September 30, 2014	
Rating	Fair Value	Percent	Fair Value	Percent
AAA	$1,451.1	8.3 %	$1,568.1	9.1 %
AA	1,930.2	11.0 %	1,909.2	11.1 %
A	4,140.6	23.6 %	3,873.0	22.5 %
BBB	7,237.5	41.3 %	7,032.5	40.9 %
BB (a)	688.9	4.0 %	759.6	4.4 %
B and below (b)	2,066.5	11.8 %	2,069.1	12.0 %
Total	$17,514.8	100.0 %	$17,211.5	100.0 %

(a) Includes $66.4 million and $47.1 million at September 30, 2015 and 2014, respectively, of non-agency RMBS that carry a NAIC 1 designation.
(b) Includes $1,787.6 million and $1,677.3 million at September 30, 2015 and 2014, respectively, of non-agency RMBS that carry a NAIC 1 designation.
As of September 30, 2015 and 2014, included in the Insurance segment's fixed maturity AFS securities portfolio were the collateral assets of the funds withheld coinsurance agreement with Front Street Cayman fixed income portfolio with fair value of $1.0 billion and $1.1 billion, respectively. The following table summarizes the credit quality, by NRSRO rating, of the Front Street Cayman fixed income portfolio (in millions):

	September 30, 2015		September 30, 2014	
Rating	Fair Value	Percent	Fair Value	Percent
AAA	$88.5	8.9 %	$92.4	8.8 %
AA	68.6	6.9 %	92.5	8.8 %
A	86.6	8.7 %	95.1	9.0 %
BBB	293.0	29.5 %	304.2	28.9 %
BB	167.9	16.9 %	86.1	8.2 %
B and below	287.2	29.1 %	382.0	36.3 %
Total	$991.8	100.0 %	$1,052.3	100.0 %

The NAIC's Securities Valuation Office ("SVO") is responsible for the day-to-day credit quality assessment and valuation of securities owned by state regulated insurance companies. Insurance companies report ownership of securities to the SVO when such securities are eligible for regulatory filings. The SVO conducts credit analysis on these securities for the purpose of assigning an NAIC designation or unit price. Typically, if a security has been rated by an NRSRO, the SVO utilizes that rating and assigns an NAIC designation based upon the following system:

NAIC Designation	NRSRO Equivalent Rating
1	AAA/AA/A
2	BBB
3	BB
4	B
5	CCC and lower
6	In or near default

The NAIC adopted revised designation methodologies for non-agency RMBS, including RMBS backed by subprime mortgage loans and for commercial mortgage-backed securities ("CMBS"). The NAIC's objective with the revised designation methodologies for these structured securities was to increase the accuracy in assessing expected losses and to use the improved assessment to determine a more appropriate capital requirement for such structured securities. The NAIC designations for structured securities, including subprime and Alternative A-paper ("Alt-A"), RMBS, are based upon a comparison of the bond’s amortized cost to the NAIC’s loss expectation for each security. Securities where modeling results in no expected loss in all scenarios are given the highest designation of NAIC 1. A large percentage of FGL's RMBS securities carry a NAIC 1 designation while the NRSRO rating indicates below investment grade. The revised methodologies reduce regulatory reliance on rating agencies and allow for greater regulatory input into the assumptions

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used to estimate expected losses from such structured securities. In the tables below, FGL presents the rating of structured securities based on ratings from the revised NAIC rating methodologies described above (which in some cases do not correspond to rating agency designations). All NAIC designations (e.g., NAIC 1-6) are based on the revised NAIC methodologies.

The table below presents the Insurance segment's fixed maturity securities by NAIC designation as of September 30, 2015 and 2014 (in millions):

	September 30, 2015				September 30, 2014			
NAIC Designation	Amortized Cost	Fair Value	Percent of Total Fair Value		Amortized Cost	Fair Value	Percent of Total Fair Value	
1	$9,880.4	$10,141.1	57.9	%	$9,224.0	$9,675.8	56.2	%
2	6,650.3	6,581.8	37.6	%	6,302.3	6,569.1	38.2	%
3	572.2	535.3	3.1	%	523.3	549.4	3.2	%
4	251.8	224.0	1.3	%	336.3	335.3	1.9	%
5	36.4	32.1	0.1	%	82.8	81.9	0.5	%
6	0.4	0.5	—	%	—	—	—	%
	$17,391.5	$17,514.8	100.0	%	$16,468.7	$17,211.5	100.0	%

The table below presents the collateral assets of the funds withheld coinsurance agreement with Front Street Cayman fixed income portfolio by NAIC designation included in our fixed maturity AFS securities as of September 30, 2015 and 2014 (in millions):

	September 30, 2015				September 30, 2014			
NAIC Designation	Amortized Cost	Fair Value	Percent of Total Fair Value		Amortized Cost	Fair Value	Percent of Total Fair Value	
1	$356.6	$351.7	35.5	%	$360.9	$378.1	35.9	%
2	281.7	250.2	25.2	%	270.5	275.0	26.1	%
3	170.3	158.0	15.9	%	47.7	47.8	4.6	%
4	219.2	201.7	20.3	%	272.1	270.6	25.7	%
5	33.8	30.2	3.1	%	81.4	80.8	7.7	%
	$1,061.6	$991.8	100.0	%	$1,032.6	$1,052.3	100.0	%

Investment Industry Concentration:

The tables below summarize the Insurance segment’s top 10 industries concentration of its AFS, including the fair value and percent of total AFS’ fair value as of September 30, 2015 and 2014 (in millions):

Top 10 Industry Concentration	September 30, 2015	Percent of Total Fair Value	
Banking	$1,979.1	10.9	%
Municipal	1,796.4	9.9	%
Asset-backed securities CLO	1,565.6	8.6	%
Whole loan collateralized mortgage obligation	1,430.5	7.9	%
Life insurance	973.0	5.4	%
CMBS	877.3	4.8	%
Electric	858.2	4.7	%
Property and casualty insurance	798.1	4.4	%
Other financial institutions	690.7	3.8	%
Pipelines	495.9	2.7	%
Total	$11,464.8	63.1	%

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Top 10 Industry Concentration	September 30, 2014	Percent of Total Fair Value
Banking	$2,240.3	12.5 %
Asset-backed securities CLO (a)	1,755.9	9.8 %
Municipal	1,313.3	7.3 %
Life insurance	1,086.7	6.1 %
Electric	958.8	5.4 %
CMBS	836.1	4.7 %
Property and casualty insurance	832.1	4.7 %
Whole loan collateralized mortgage obligation (a)	806.5	4.5 %
Other financial institutions	726.1	4.1 %
Pipelines	561.2	3.1 %
Total	$11,117.0	62.2 %

(a) Certain prior year amounts have been reclassified to conform to the current year presentation.

Non-Agency RMBS exposure

In late 2011 and 2012, following stabilization in the housing market, and a review of the loss severity methodology utilized by the NAIC, which took into account home price appreciation vectors, rather than NRSRO ratings criteria, FGL began to increase exposure to non-agency RMBS securities across the spectrum. These investment decisions were driven by rigorous analysis of the underlying collateral, as well as considerations of structural characteristics associated with these positions.

FGL has been a buyer of non-agency RMBS securities in the secondary market. FGL does not originate non-agency whole loans, regardless of underlying collateral.

FGL's investment in non-agency RMBS securities is predicated on the conservative and adequate cushion between purchase price and NAIC 1 rating, favorable capital characteristics, general lack of sensitivity to interest rates, positive convexity to prepayment rates, and correlation between the price of the securities and the unfolding recovery of the housing market.

The fair value of FGL's investments in subprime and Alt-A RMBS securities was $521.9 million and $1,240.4 million as of September 30, 2015, respectively, and $567.6 million and $1,131.6 million as of September 30, 2014, respectively.

The following table summarizes FGL's exposure to subprime and Alt-A RMBS by credit quality using NAIC designations, NRSRO ratings and vintage year as of September 30, 2015 and 2014:

September 30, 2015						September 30, 2014					
NAIC Designation		NRSRO		Percent of Total Fair Value		NAIC Designation		NRSRO		Percent of Total Fair Value	
1	99.2 %	AAA	2.0 %	2008	— %	1	97.6 %	AAA	4.2 %	2008	0.3 %
2	0.8 %	AA	0.6 %	2007	25.5 %	2	1.4 %	AA	0.7 %	2007	23.8 %
3	— %	A	3.8 %	2006	40.9 %	3	0.8 %	A	4.5 %	2006	35.4 %
4	— %	BBB	1.2 %	2005 and prior	33.6 %	4	0.2 %	BBB	2.2 %	2005 and prior	40.5 %
5	— %	BB and below	92.4 %		100.0 %	5	— %	BB and below	88.4 %		100.0 %
6	— %		100.0 %			6	— %		100.0 %		
	100.0 %						100.0 %				

Asset-backed securities exposure

As of September 30, 2015, FGL's asset-backed securities ("ABS") exposure was largely composed of NAIC 1 rated tranches of CLOs, which comprised 84.1% of all ABS holdings. These exposures, are generally senior tranches of CLOs, which have leveraged loans as their underlying collateral. The remainder of FGL's ABS exposure was largely diversified by underlying collateral and issuer type, including credit card and automobile receivables.

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The following table summarize FGL’s ABS exposure as of September 30, 2015 and 2014 (in millions):

	September 30, 2015		September 30, 2014	
Asset Class	Fair Value	Percent	Fair Value	Percent
Collateralized loan obligations	$1,565.6	84.1 %	$1,628.2	90.8 %
Car loans	19.1	1.0 %	18.0	1.0 %
Other	275.8	14.9 %	146.7	8.2 %
Total asset-backed securities	$1,860.5	100.0 %	$1,792.9	100.0 %

The non-CLO exposure as of September 30, 2015 represents 15.9% of total ABS assets, or 1.5% of total invested assets. As of September 30, 2015, the CLO and non-CLO positions were trading at a net unrealized loss position of $42.5 million and unrealized gain of $0.4 million, respectively. The non-CLO exposure as of September 30, 2014 represented 9.2% of total ABS assets, or 0.9% of total invested assets. As of September 30, 2014, the CLO and non-CLO positions were trading at a net unrealized loss position of $8.7 million and a net unrealized gain position of $0.8 million, respectively.

Unrealized Losses

The amortized cost and fair value of the fixed maturity securities and the equity securities that were in an unrealized loss position as of September 30, 2015 and 2014 were as follows (in millions, except for number of securities):

	September 30, 2015				September 30, 2014			
	Number of securities	Amortized Cost	Unrealized Losses	Fair Value	Number of securities	Amortized Cost	Unrealized Losses	Fair Value
Fixed maturity securities, available for sale:								
United States Government full faith and credit	0	$—	$—	$—	6	$120.4	$(1.4)	$119.0
United States Government sponsored entities	21	31.1	(0.5)	30.6	19	24.8	(0.1)	24.7
United States municipalities, states and territories	60	428.0	(15.1)	412.9	41	271.2	(6.3)	264.9
Corporate securities:								
Finance, insurance and real estate	129	1,135.8	(51.8)	1,084.0	89	675.6	(13.3)	662.3
Manufacturing, construction and mining	77	587.8	(104.6)	483.2	39	352.5	(14.0)	338.5
Utilities, energy and related sectors	151	996.8	(95.8)	901.0	55	386.0	(9.0)	377.0
Wholesale/retail trade	94	399.3	(26.4)	372.9	31	250.8	(4.2)	246.6
Services, media and other	126	905.0	(75.5)	829.5	42	328.4	(8.4)	320.0
Hybrid securities	46	672.0	(42.3)	629.7	41	563.4	(15.2)	548.2
Non-agency Residential mortgage-backed securities	135	712.2	(25.8)	686.4	83	462.4	(11.0)	451.4
Commercial mortgage-backed securities	50	404.0	(9.4)	394.6	24	162.7	(2.0)	160.7
Asset-backed securities	192	1,484.0	(47.1)	1,436.9	134	1,132.8	(18.8)	1,114.0
Equity securities	22	146.7	(4.0)	142.7	25	240.4	(5.1)	235.3
	1,103	$7,902.7	$(498.3)	$7,404.4	629	$4,971.4	$(108.8)	$4,862.6

The gross unrealized loss position on the AFS fixed maturity and equity securities portfolio as of September 30, 2015, was $498.3 million, an increase of $389.5 million from $108.8 million at September 30, 2014. Corporate bonds represented 78.4% or $305.2 million of this increase as spreads were wider in most corporate sectors, with high grade spreads increasing to 169 percentage basis points (“bps”) from 145 bps in Fiscal 2015, and high yield spreads increasing to 630 bps from 476 bps in the same time period. The manufacturing, construction and mining sector and the utilities and energy sector experienced the largest increase in unrealized losses, growing from $14.0 million to $104.6 million and from $9.0 million to $95.8 million, respectively. Weakness in commodity sensitive positions was the largest component of the increase in the unrealized loss position, with holdings in the manufacturing, construction and mining segment comprising 20.8% of the gross unrealized loss, up from 12.9% in the prior period.

FGL’s municipal bond portfolio exposure is a combination of general obligation bonds (fair value of $356.2 million and an amortized cost of $337.9 million as of September 30, 2015) and special revenue bonds (fair value of $1,251.3 million and amortized cost of $1,181.7 million as of September 30, 2015). Across all municipal bonds, the largest issuer represented

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7.0% of the category, less than 0.6% of the entire portfolio and was rated NAIC 1. FGL's focus within municipal bonds is on NAIC 1 rated instruments, and 97.0% of the municipal bond exposure was rated NAIC 1.
The amortized cost and fair value of fixed maturity securities and equity securities (excluding United States Government and United States Government sponsored agency securities) in an unrealized loss position greater than 20% and the number of months in an unrealized loss position with fixed maturity investment grade securities (NRSRO rating of BBB/Baa or higher) as of September 30, 2015 and 2014, were as follows (in millions, except for number of securities):

	September 30, 2015				September 30, 2014			
	Number of securities	Amortized Cost	Fair Value	Gross Unrealized Losses	Number of securities	Amortized Cost	Fair Value	Gross Unrealized Losses
Investment grade:								
Less than six months	35	$279.3	$200.4	$(78.9)	—	$—	$—	$—
Six months or more and less than twelve months	2	30.7	17.5	(13.2)	—	—	—	—
Twelve months or greater	—	—	—	—	2	0.7	0.1	(0.6)
Total investment grade	37	310.0	217.9	(92.1)	2	0.7	0.1	(0.6)