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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from to

Commission file number: 1-4219

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

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

(212) 906-8555
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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

HARBINGER GROUP INC.

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PART I: FINANCIAL INFORMATION

Item 1. *Financial Statements*

HARBINGER GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)

	June 30, 2014	September 30, 2013
	(Unaudited)	
ASSETS		
Investments:		
Fixed maturities	$ 16,767.1	$ 15,300.0
Equity securities	760.7	352.5
Derivatives	324.7	221.8
Asset-based loans	724.3	560.4
Other invested assets	174.3	31.2
Total investments	18,751.1	16,465.9
Cash and cash equivalents	1,455.9	1,899.7
Receivables, net	664.9	611.3
Inventories, net	746.7	632.9
Accrued investment income	159.9	161.2
Reinsurance recoverable	2,393.7	2,363.7
Deferred tax assets	145.9	293.4
Properties, including oil and natural gas properties, net	924.5	993.3
Goodwill	1,539.1	1,476.7
Intangibles, including deferred acquisition costs and value of business acquired, net	2,664.8	2,729.1
Other assets	438.7	281.6
Total assets	$ 29,885.2	$ 27,908.8
LIABILITIES AND EQUITY		
Insurance reserves:		
Contractholder funds	$ 16,217.9	$ 15,248.2
Future policy benefits	3,671.0	3,556.8
Liability for policy and contract claims	61.0	51.5
Funds withheld from reinsurers	38.1	39.4
Total insurance reserves	19,988.0	18,895.9
Debt	5,303.4	4,896.1
Accounts payable and other current liabilities	899.9	1,012.7
Equity conversion feature of preferred stock	—	330.8
Employee benefit obligations	87.4	99.6
Deferred tax liabilities	522.2	492.8
Other liabilities	733.6	718.0
Total liabilities	27,534.5	26,445.9
Commitments and contingencies		
Temporary equity:		
Redeemable preferred stock	—	329.4
Harbinger Group Inc. stockholders' equity:		
Common stock	2.1	1.4
Additional paid-in capital	1,500.9	828.0
Accumulated deficit	(270.0)	(192.4)
Accumulated other comprehensive income	301.3	87.7
Total Harbinger Group Inc. stockholders' equity	1,534.3	724.7
Noncontrolling interest:	816.4	408.8
Total permanent equity	2,350.7	1,133.5
Total liabilities and equity	$ 29,885.2	$ 27,908.8

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Net income	$ 141.5	$ 118.7	$ 84.1	$ 136.3
Other comprehensive income (loss)				
Foreign currency translation gains (losses)	8.4	(7.8)	5.6	(25.4)
Net unrealized (loss) gain on derivative instruments				
Changes in derivative instruments before reclassification adjustment	(3.0)	3.2	(3.9)	4.6
Net reclassification adjustment for losses (gains) included in net income	1.3	(0.5)	2.2	(0.1)
Changes in derivative instruments after reclassification adjustment	(1.7)	2.7	(1.7)	4.5
Changes in deferred income tax asset/liability	0.3	(0.4)	0.2	(1.5)
Deferred tax valuation allowance adjustments	(0.1)	(0.5)	(0.1)	(0.1)
Net unrealized (loss) gain on derivative instruments	(1.5)	1.8	(1.6)	2.9
Actuarial adjustments to pension plans				
Changes in actuarial adjustments before reclassification adjustment	0.2	(0.6)	(0.4)	(2.2)
Net reclassification adjustment for losses included in cost of goods sold	0.2	0.3	0.4	1.0
Net reclassification adjustment for losses included in selling and general and administrative expenses	0.2	0.2	0.7	0.6
Changes in actuarial adjustments to pension plans	0.6	(0.1)	0.7	(0.6)
Changes in deferred income tax asset/liability	(0.2)	—	(0.2)	0.2
Deferred tax valuation allowance adjustments	—	—	—	0.1
Net actuarial adjustments to pension plans	0.4	(0.1)	0.5	(0.3)
Unrealized investment gains (losses):				
Changes in unrealized investment gains before reclassification adjustment	350.6	(559.2)	727.2	(379.1)
Net reclassification adjustment for gains included in net income	(71.5)	(35.3)	(89.8)	(281.8)
Changes in unrealized investment gains (losses) after reclassification adjustment	279.1	(594.5)	637.4	(660.9)
Adjustments to intangible assets	(86.1)	210.7	(191.2)	260.9
Changes in deferred income tax asset/liability	(68.8)	135.4	(156.4)	140.9
Net unrealized gain (loss) on investments	124.2	(248.4)	289.8	(259.1)
Net change to derive comprehensive income (loss) for the period	131.5	(254.5)	294.3	(281.9)
Comprehensive income (loss)	273.0	(135.8)	378.4	(145.6)
Less: Comprehensive income (loss) attributable to the noncontrolling interest:				
Net income (loss)	43.2	15.1	88.1	(8.1)
Other comprehensive income (loss)	28.0	(2.5)	58.0	(9.6)
	71.2	12.6	146.1	(17.7)
Comprehensive income (loss) attributable to the controlling interest	$ 201.8	$ (148.4)	$ 232.3	$ (127.9)

See accompanying notes to condensed consolidated financial statements.

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

	Nine months ended June 30,	
	2014	2013
	(Unaudited)	
Cash flows from operating activities:		
Net income	$ 84.1	$ 136.3
Adjustments to reconcile net income to operating cash flows:		
Depreciation of properties	92.1	65.0
Amortization of intangibles	121.5	220.6
Impairment of oil and gas properties	81.0	—
Stock-based compensation	67.1	44.9
Amortization of debt issuance costs	14.7	10.3
Amortization of debt discount	2.2	1.1
Write-off of debt issuance costs on retired debt	6.4	15.5
Write-off of debt discount on retired debt	2.8	3.0
Deferred income taxes	(1.4)	164.6
Gain on contingent purchase price reduction	(0.5)	—
Interest credited/index credits to contractholder account balances	585.1	320.2
Collateral received (paid)	80.1	—
Amortization of fixed maturity discounts and premiums	(29.6)	24.4
Net recognized gains on investments and derivatives	(341.5)	(494.4)
Charges assessed to contractholders for mortality and administration	(34.4)	(23.9)
Deferred policy acquisition costs	(172.5)	(109.2)
Non-cash increase to cost of goods sold due to the sale of HHI Business acquisition inventory	—	31.0
Non-cash restructuring and related charges	4.0	—
Changes in operating assets and liabilities:	(396.8)	(315.4)
Net change in cash due to operating activities	164.4	94.0
Cash flows from investing activities:		
Proceeds from investments sold, matured or repaid	4,754.5	7,396.3
Cost of investments acquired	(5,929.7)	(7,271.4)
Acquisitions, net of cash acquired	(25.8)	(2,013.7)
Asset-based loans originated, net	(102.0)	(251.8)
Capital expenditures	(69.1)	(58.8)
Proceeds from sales of assets	9.1	—
Other investing activities, net	(0.1)	(0.6)
Net change in cash due to investing activities	(1,363.1)	(2,200.0)
Cash flows from financing activities:		
Proceeds from issuance of new debt	748.3	2,952.1
Repayment of debt, including tender and call premiums	(571.9)	(958.5)
Revolving credit facility activity	89.9	348.1
Debt issuance costs	(11.0)	(79.0)
Purchases of subsidiary stock, net	(8.3)	(73.9)
Contractholder account deposits	1,778.9	1,078.4
Contractholder account withdrawals	(1,360.8)	(1,323.7)
Dividend paid by subsidiary to noncontrolling interest	(20.7)	(12.1)
Dividends paid on preferred stock	(20.4)	(25.0)
Share based award tax withholding payments	(32.1)	(22.4)
Proceeds from initial public offering of subsidiary shares, less costs of issuance	172.6	—
Common stock repurchased	(12.1)	—
Other financing activities, net	2.5	—
Net change in cash due to financing activities	754.9	1,884.0
Effect of exchange rate changes on cash and cash equivalents	—	(5.0)
Net change in cash and cash equivalents	(443.8)	(227.0)
Cash and cash equivalents at beginning of period	1,899.7	1,470.7
Cash and cash equivalents at end of period	$ 1,455.9	$ 1,243.7

See accompanying notes to condensed consolidated financial statements.

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in millions, except per share and unit figures)

(1) Description of Business

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

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

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

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

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

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

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

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

In addition, in May 2014, HGI Funding, LLC ("HGI Funding"), a wholly-owned subsidiary of HGI completed the $13.5 acquisition of Frederick's of Hollywood Group Inc. ("FOH"), a retailer of women's apparel and related products. See Note 3, Acquisitions.

In June 2014, HGI purchased 1.0 million shares at a price of $12.10 per share, for an aggregate $12.1 under the $100.0 repurchase program authorized by HGI's Board of Directors earlier in the year.

The Company’s reportable business segments are organized in a manner that reflects how HGI’s management views those business activities. Accordingly, the Company currently operates its business in four reporting segments: (i) Consumer Products, (ii) Insurance, (iii) Energy, and (iv) Asset Management. For the results of operations by segment, and other segment data, see Note 16, Segment Data.

(2) Basis of Presentation, Significant Accounting Policies and Practices and Recent Accounting Pronouncements

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of the Company included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of such information. All such adjustments are of a normal recurring nature. Although the Company believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), have been condensed or omitted pursuant to such rules and regulations, except for such significant accounting policies that relate to the ceiling test on certain oil and natural gas properties, which are detailed below. Certain prior year amounts have been reclassified or combined to conform to the current year presentation. These reclassifications and combinations had no effect on previously reported results of operations or accumulated deficit. These interim financial statements should be read in conjunction with the Company’s annual consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2013, filed with the SEC on November 27, 2013 (the "Form 10-K"). The results of operations for the nine months ended June 30, 2014 are not necessarily indicative of the results for any subsequent periods or the entire fiscal year ending September 30, 2014.

The Company’s fiscal year ends on September 30 and the quarters end on the last calendar day of the months of December, March and June. The Company's significant subsidiary, Spectrum Brands' fiscal year ends September 30 and its interim fiscal quarters end every thirteenth Sunday, except for its first fiscal quarter which may end on the fourteenth Sunday following September 30. The Company does not adjust for the difference in fiscal periods between Spectrum Brands and itself, as such difference would be less than 93 days, pursuant to Regulation S-X Rule 3A-02.

At June 30, 2014, the non-controlling interest component of total equity represents the 41.3% share of Spectrum Brands, the 19.6% of FGL, the 83.0% share of CorAmerica Capital, LLC ("CorAmerica"), the 38.0% share of FOHG Holdings, LLC ("FOHG"), the 14.3% of Salus Capital Partners, LLC ("Salus"), and the 2.1% share of Zap.Com Corporation ("Zap.com") not owned by HGI.

Oil and natural gas properties

Ceiling Test

Pursuant to Rule 4-10(c)(4) of Regulation S-X, our equity investment in an oil and natural gas joint venture (Compass Production GP, LLC and Compass Production Partners, LP, collectively, and together with their respective subsidiaries, "Compass", also formerly known as "the EXCO/HGI JV") was required to compute a limitation on costs capitalized pursuant to their use of the full cost method of accounting for their oil and natural gas properties (the "ceiling test"), using the simple average spot price for the trailing twelve month period for oil and natural gas as of June 30, 2014. The ceiling test compares the net book value of the full cost pool, after taxes, to the full cost ceiling limitation defined below. In the event the full cost ceiling limitation is less than the full cost pool, Compass is required to record a ceiling test impairment of Compass' oil and natural gas properties. The full cost ceiling limitation is computed as the sum of the present value of estimated future net revenues from Compass' proved reserves by applying the average price as prescribed by the SEC Release No. 33-8995, less estimated future expenditures (based on current costs) to develop and produce the proved reserves, discounted at 10%, plus the cost of properties not being amortized and the lower of cost or estimated fair value of unproved properties included in the costs being amortized, net of income tax effects.

The ceiling test is computed using the simple average spot price for the trailing 12 month period using the first day of each month. For the 12 months ended June 30, 2014, the trailing 12 month reference prices were $4.10 per Mmbtu for natural gas at Henry Hub, and $100.11 per Bbl of oil for West Texas Intermediate at Cushing, Oklahoma. The price used for natural gas liquids was $44.13 per Bbl and was based on the trailing 12 month average of realized prices. Each of the reference prices for oil and natural gas are further adjusted for quality factors and regional differentials to derive estimated future net revenues. Under full cost accounting rules, any ceiling test impairments of oil and natural gas properties may not be reversed in subsequent periods. Since Compass does not designate its derivative financial instruments as hedging instruments, Compass is not allowed to use the impacts of the derivative financial instruments in the ceiling test computations.

Compass did not recognize an impairment to its proved oil and natural gas properties for the three months ended June 30, 2014 and June 30, 2013 and for the period from inception to period ended June 30, 2013. Compass recognized impairments of $81.0 to its proved oil and natural gas properties for the nine months ended June 30, 2014. We previously received an exemption from the SEC to exclude the acquisition of Compass' unamortized oil and natural gas properties from the ceiling test for a period of one year following the acquisition date and this exemption expired during the interim period ended March 31, 2014. The impairments primarily resulted from differences in the oil and natural gas prices utilized in the purchase price allocation at the acquisition date and the prices used in the ceiling test calculation. Our pricing utilized in the purchase price allocation as of the acquisition date was based on models which incorporate, among other things, market prices based on New York Mercantile Exchange ("NYMEX") futures. The ceiling test requires companies using the full cost accounting method to price period ending proved reserves using the simple average spot price for the trailing twelve month period, which may not be indicative of actual market values.

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

Insurance Subsidiary Financial Information

The Company's insurance subsidiaries file financial statements with state insurance regulatory authorities and the National Association of Insurance Commissioners ("NAIC") that are prepared in accordance with Statutory Accounting Principles ("SAP") prescribed or permitted by such authorities, which may vary materially from US GAAP. Prescribed SAP includes the Accounting Practices and Procedures Manual of the NAIC as well as state laws, regulations and administrative rules. Permitted SAP encompasses all accounting practices not so prescribed. The principal differences between statutory financial statements and financial statements prepared in accordance with US GAAP are that statutory financial statements do not reflect deferred acquisition costs ("DAC") and value of business acquired ("VOBA"), some bond portfolios may be carried at amortized cost, assets and liabilities are presented net of reinsurance, contractholder liabilities are generally valued using more conservative assumptions and certain assets are non-admitted. Accordingly, statutory operating results and statutory capital and surplus may differ substantially from amounts reported in the US GAAP basis financial statements for comparable items.

On November 1, 2013, Fidelity and Guaranty Life Insurance Company ("FGL Insurance") re-domesticated from Maryland to Iowa. After re-domestication, FGL Insurance elected to apply Iowa-prescribed accounting practices that permit Iowa-domiciled insurers to report equity call options used to economically hedge fixed indexed annuity ("FIA") index credits at amortized cost for statutory accounting purposes and to calculate FIA statutory reserves such that index credit returns will be included in the reserve only after crediting to the annuity contract. This resulted in a $11.5 increase to statutory capital and surplus at December 31, 2013. Also, the Iowa Insurance Division granted FGL Insurance a permitted statutory accounting practice to reclassify its negative unassigned surplus balance of $805.8 (unaudited) to additional paid in capital as of April 6, 2011, the date the Company acquired FGL Insurance, which will have the effect of setting FGL Insurance's statutory unassigned surplus to zero as of this date. The prescribed and permitted statutory accounting practice has no impact on the Company's consolidated financial statements which are prepared in accordance with US GAAP.

As of June 30, 2014, Fidelity and Guaranty Life Insurance Company of New York ("FGL NY Insurance") did not follow any prescribed or permitted statutory accounting practices that differ from the NAIC's statutory accounting practices. However, FGL Insurance's statutory carrying value of Raven Reinsurance Company ("Raven Re") reflects the effect of permitted practices Raven Re received from Vermont that allows Raven Re to admit the outstanding amount of a letter of credit facility as an asset. Raven Re is also permitted to follow Iowa prescribed practice statutory accounting for its statutory reserves on reinsurance assumed from FGL Insurance. Without such permitted statutory accounting practices Raven Re's statutory capital and surplus would be negative and its risk-based capital would fall below the minimum regulatory requirements.

Recent Accounting Pronouncements

Offsetting Assets and Liabilities

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

Investments in Qualified Affordable Housing Projects

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

Joint and Several Liability Arrangements

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

Presentation of Unrecognized Tax Benefit

In July 2013, the FASB issued ASU 2013-11, *"Income taxes (Topic 740): Presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists"*, which requires entities to present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, except to the extent the net operating loss carryforwards or tax credit carryforwards are not available to be used at the reporting date to settle additional income taxes, and the entity does not intend to use them for this purpose. The new accounting guidance is consistent with how the Company has historically accounted for unrecognized tax benefits in its Consolidated Statements of Financial Position; therefore, the Company does not expect the adoption of this guidance to have a significant impact on its consolidated financial statements.

Revenue from Contracts with Customers

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

(3) Acquisitions

Spectrum Brands' Acquisition of Stanley Black & Decker's Hardware and Home Improvement Business

On December 17, 2012, Spectrum Brands completed the cash acquisition (the "Hardware Acquisition") of the residential hardware and home improvement business (the "HHI Business") from Stanley Black & Decker, Inc. ("Stanley Black & Decker"). A portion of the HHI Business, consisting of the purchase of certain assets of Tong Lung Metal Industry Co. Ltd., a Taiwan Corporation ("TLM Taiwan"), closed on April 8, 2013.

Compass (formerly the EXCO/HGI JV)

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

Supplemental Pro Forma Information

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

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

Liquid Fence

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

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

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

The promissory note will be paid in four semi-annual installments over 24 months from the close of the transaction.

The results of Liquid Fence's operations since January 2, 2014 are included in the Company’s Condensed Consolidated Statements of Operations.

Preliminary Valuation of Assets and Liabilities

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

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

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

Preliminary Pre-Acquisition Contingencies Assumed

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

Preliminary Valuation Adjustments

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

A summary of the significant key inputs is as follows:

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

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

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

Frederick's of Hollywood

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

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

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

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

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

Preliminary Valuation of Assets and Liabilities

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

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

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

Preliminary Valuation Adjustments

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

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

CorAmerica

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

(4) Investments

The Company’s consolidated investments are summarized as follows:

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

	September 30, 2013				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Carrying Value
Fixed-maturity securities, available-for-sale					
Asset-backed securities	$ 1,505.7	$ 22.6	$ (5.2)	$ 1,523.1	$ 1,523.1
Commercial mortgage-backed securities	431.3	24.7	(1.6)	454.4	454.4
Corporates	9,314.7	288.7	(185.1)	9,418.3	9,418.3
Hybrids	412.6	19.5	(3.3)	428.8	428.8
Municipals	998.8	49.0	(40.8)	1,007.0	1,007.0
Agency residential mortgage-backed securities	96.5	2.4	(0.3)	98.6	98.6
Non-agency residential mortgage-backed securities	1,304.0	77.4	(13.4)	1,368.0	1,368.0
U.S. Government	998.5	7.2	(3.9)	1,001.8	1,001.8
Total fixed-maturity securities	15,062.1	491.5	(253.6)	15,300.0	15,300.0
Equity securities					
Available-for-sale	274.6	6.7	(10.3)	271.0	271.0
Held for trading	120.1	0.6	(39.2)	81.5	81.5
Total equity securities	394.7	7.3	(49.5)	352.5	352.5
Derivatives	141.7	88.5	(8.4)	221.8	221.8
Asset-based loans	560.4	—	—	560.4	560.4
Other invested assets	31.2	—	—	31.2	31.2
Total investments	$ 16,190.1	$ 587.3	$ (311.5)	$ 16,465.9	$ 16,465.9

Included in accumulated other comprehensive income ("AOCI") were cumulative unrealized gains of $0.9 and unrealized losses of $1.9 related to the non-credit portion of other-than-temporary impairments on non-agency residential mortgage-backed securities at June 30, 2014 and September 30, 2013. The non-agency residential mortgage-backed securities unrealized gains and losses represent the difference between amortized cost and fair value on securities that were previously impaired. There have been no impairments or write downs on any of the non-agency residential mortgage-backed securities purchased in 2014.

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

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

Maturities of Fixed-maturity Securities

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

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

Securities in an Unrealized Loss Position

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

FGL analyzes its ability to recover the amortized cost by comparing the net present value of cash flows expected to be collected with the amortized cost of the security. For mortgage-backed and asset-backed securities, cash flow estimates consider the payment terms of the underlying assets backing a particular security, including interest rate and prepayment assumptions, based on data from widely accepted third-party data sources or internal estimates. In addition to interest rate and prepayment assumptions, cash flow estimates also include other assumptions regarding the underlying collateral including default rates and recoveries, which vary based on the asset type and geographic location, as well as the vintage year of the security. For structured securities, the payment priority within the tranche structure is also considered. For all other debt securities, cash flow estimates are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. If the net present value is less than the amortized cost of the investment, an other-than-temporary impairment is recognized. FGL has concluded that the fair values of the securities presented in the table below were not other-than-temporarily impaired as of June 30, 2014.

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

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

	September 30, 2013					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available-for-sale securities						
Asset-backed securities	$ 329.3	$ (4.5)	$ 81.5	$ (0.7)	$ 410.8	$ (5.2)
Commercial mortgage-backed securities	26.6	(0.5)	4.9	(1.1)	31.5	(1.6)
Corporates	3,457.2	(175.0)	186.0	(10.1)	3,643.2	(185.1)
Equities	118.6	(9.1)	32.2	(1.2)	150.8	(10.3)
Hybrids	52.0	(3.3)	—	—	52.0	(3.3)
Municipals	333.3	(27.3)	144.4	(13.5)	477.7	(40.8)
Agency residential mortgage-backed securities	9.8	(0.1)	1.1	(0.2)	10.9	(0.3)
Non-agency residential mortgage-backed securities	325.2	(12.2)	69.9	(1.2)	395.1	(13.4)
U.S. Government	753.9	(3.9)	—	—	753.9	(3.9)
Total available-for-sale securities	$ 5,405.9	$ (235.9)	$ 520.0	$ (28.0)	$ 5,925.9	$ (263.9)
Total number of available-for-sale securities in an unrealized loss position		588		78		666

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

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

Credit Loss Portion of Other-than-temporary Impairments

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

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

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

Asset-based Loans

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

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

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

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

Credit Quality Indicators

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

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

Net Investment Income

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

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

Net investment gains

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

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

For the three and nine months ended June 30, 2014, principal repayments, calls, tenders, and proceeds from the sale of fixed maturity available-for-sale securities totaled $1,724.6 and $4,352.5, respectively, gross gains on such sales totaled $74.6 and $96.8, respectively and gross losses totaled $1.7 and $4.2, respectively. The proceeds from the sale of fixed maturity available-for sale securities exclude maturities and repayments for the three and nine months ended June 30, 2014.

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

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

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

Concentrations of Financial Instruments

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

(5) Derivative Financial Instruments

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

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

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

Changes in AOCI from Derivative Instruments

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

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

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

Fair Value Contracts and Other

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

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

Additional Disclosures

Cash Flow Hedges

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

Spectrum Brands periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign currency denominated third party and intercompany sales or payments. These obligations generally require Spectrum Brands to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Australian Dollars, Brazilian Reals, Mexican Pesos, Canadian Dollars or Japanese Yen. These foreign exchange contracts are cash flow hedges of fluctuating foreign exchange related to sales of product or raw material purchases. Until the sale or purchase is recognized, the fair value of the related hedge is recorded in AOCI and as a derivative hedge asset or liability, as applicable. At the time the sale or purchase is recognized, the fair value of the related hedge is reclassified as an adjustment to "Net consumer and other product sales" or purchase price variance in "Cost of consumer products and other goods sold." At June 30, 2014, Spectrum Brands had a series of foreign exchange derivative contracts outstanding through September 2014 with a contract value of $221.5. The derivative net loss on these contracts recorded in AOCI at June 30, 2014 was $2.1, net of tax benefit of $0.6 and noncontrolling interest of $1.5. At June 30, 2014, the portion of derivative net loss estimated to be reclassified from AOCI into earnings over the next twelve months is $2.0, net of tax and noncontrolling interest.

Spectrum Brands is exposed to risk from fluctuating prices for raw materials, specifically zinc and brass used in its manufacturing processes. Spectrum Brands hedges a portion of the risk associated with the purchase of these materials through the use of commodity swaps. The hedge contracts are designated as cash flow hedges with the fair value changes recorded in AOCI and as a hedge asset or liability, as applicable. The unrecognized changes in fair value of the hedge contracts are reclassified from AOCI into earnings when the hedged purchase of raw materials also affects earnings. The swaps effectively fix the floating price on a specified quantity of raw materials through a specified date. At June 30, 2014, Spectrum Brands had a series of zinc swap contracts outstanding through June 2015 for 5 tons with a contract value of $9.9. At June 30, 2014, Spectrum Brands had a series of brass swap contracts outstanding through June 2015 for one ton with a contract value of $3.9. The derivative net gain on these contracts recorded in AOCI at June 30, 2014 was $1.2, net of tax expense of $0.1. At June 30, 2014, the portion of derivative net gain estimated to be reclassified from AOCI into earnings over the next twelve months is $1.2, net of tax.

Fair Value Contracts

Spectrum Brands

Spectrum Brands periodically enters into forward and swap foreign exchange contracts to economically hedge the risk from third party and intercompany payments resulting from existing obligations. These obligations generally require Spectrum Brands to exchange foreign currencies for U.S. Dollars, Canadian Dollars, Euros or Australian Dollars. These foreign exchange contracts are fair value hedges of a related liability or asset recorded in the accompanying Condensed Consolidated Balance Sheets. The gain or loss on the derivative hedge contracts is recorded in earnings as an offset to the change in value of the related liability or asset at each period end. At June 30, 2014 and September 30, 2013, Spectrum Brands had $154.3 and $108.5, respectively, of notional value for such foreign exchange derivative contracts outstanding.

Spectrum Brands periodically enters into commodity swap contracts to economically hedge the risk from fluctuating prices for raw materials, specifically the pass-through of market prices for silver used in manufacturing purchased watch batteries. Spectrum Brands hedges a portion of the risk associated with these materials through the use of commodity swaps. The swap contracts are designated as economic hedges with the unrealized gain or loss recorded in earnings and as an asset or liability at each period end. The unrealized changes in fair value of the hedge contracts are adjusted through earnings when the realized gains or losses affect earnings upon settlement of the hedges. The swaps effectively fix the floating price on a specified quantity of silver through a specified date. At June 30, 2014, Spectrum Brands had a series of such swap contracts outstanding through September 2015 for 35 troy ounces with a contract value of $0.7. At September 30, 2013, Spectrum Brands had a series of such swap contracts outstanding through April 2014 for 45 troy ounces with a contract value of $1.0.

Oil and natural gas commodity contracts

Compass’ primary objective in entering into derivative financial instruments is to manage its exposure to commodity price fluctuations, protect its returns on investments and achieve a more predictable cash flow in connection with its operations. These transactions limit exposure to declines in commodity prices, but also limit the benefits Compass would realize if commodity prices increase. When prices for oil and natural gas are volatile, changes in the fair value of the derivative financial instrument contracts underlying Compass’ derivative financial instrument management activities may result in significant non-cash income or expense activity. Cash losses or gains only arise from payments made or received on monthly settlements of contracts or if Compass terminates a contract prior to its expiration. Compass does not designate its derivative financial instruments as hedging instruments for financial reporting purposes and, as a result, Compass recognizes the change in the respective instruments’ fair value in earnings.

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

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

The following table presents our proportionate share of Compass' volumes and fair value of the oil and natural gas derivative financial instruments as of June 30, 2014 (presented on a calendar-year basis) :

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

At September 30, 2013, Compass had outstanding derivative contracts to mitigate price volatility covering 16,018 Billion British Thermal Units ("Mmmbtus") of natural gas and 375 Thousand Barrels ("Mbbls") of oil. At June 30, 2014, the average forward NYMEX oil prices per Bbl for the remainder of 2014 and 2015 was $103.82 and $97.62, and the average forward NYMEX natural gas prices per Mmbtu for the remainder of 2014 was $4.47.

Compass derivative financial instruments covered approximately 68% and 74% of production volumes for the three and nine months ended June 30, 2014, respectively, and 77% and 70% of production volumes for the three months ended June 30, 2013 and from inception to period ended June 30, 2013, respectively

Other Embedded Derivatives

On June 16, 2014, FGL invested in a $35.0 fund-linked note issued by Nomura International Funding Pte. Ltd. The note provides for an additional payment at maturity based on the value of a hypothetical investment in AnchorPath Dedicated Return Fund (the "AnchorPath Fund") of $11.3, which is based on the actual return of the fund. At maturity of the fund-linked note, FGL will receive the $35.0 face value of the note plus the value of the hypothetical investment in the AnchorPath Fund. The additional payment at maturity is an available-for-sale embedded derivative reported in "Other embedded derivatives".

Credit Risk

Spectrum Brands is exposed to the risk of default by the counterparties with which Spectrum Brands transacts and generally does not require collateral or other security to support financial instruments subject to credit risk. As appropriate, Spectrum Brands monitors counterparty credit risk on an individual basis by periodically assessing each such counterparty's credit rating exposure. The maximum loss due to credit risk equals the fair value of the gross asset derivatives that are concentrated with certain domestic and foreign financial institution counterparties. Spectrum Brands considers these exposures when measuring its credit reserve on its derivative assets, which was insignificant at June 30, 2014 and September 30, 2013.

Spectrum Brands' standard contracts do not contain credit risk related contingent features whereby Spectrum Brands would be required to post additional cash collateral as a result of a credit event. However, Spectrum Brands is typically required to post collateral in the normal course of business to offset its liability positions. At June 30, 2014, Spectrum Brands did not post any cash collateral related to such liability positions. At September 30, 2013, Spectrum Brands had posted cash collateral of $0.5 related to such liability positions. In addition, at June 30, 2014 and September 30, 2013, Spectrum Brands had no posted standby letters of credit related to such liability positions. The cash collateral is included in "Receivables, net" within the accompanying Condensed Consolidated Balance Sheets.

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

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

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

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

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

Collateral Agreements

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

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

(6) Fair Value of Financial Instruments

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

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

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

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

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

Valuation Methodologies

Fixed Maturity Securities, Equity Securities and Other Invested Assets

FGL measures the fair value of its securities based on assumptions used by market participants in pricing the security. The appropriate valuation methodology is selected based on the specific characteristics of the fixed maturity or equity security, and FGL will then consistently apply the valuation methodology to measure the security's fair value. FGL's fair value measurement is based on a market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the market approach include a third-party pricing service, independent broker quotations or pricing matrices. FGL uses observable and unobservable inputs in its valuation methodologies. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators and industry and economic events are monitored and further market data will be acquired when certain thresholds are met. For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. The significant unobservable input used to estimate the fair value measurement of certain available-for-sale equity securities using the market-approach valuation technique, is yields for comparable securities. Increases (decreases) in such yields, respectively, would result in lower or higher fair value measurements. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. Management believes the broker quotes are prices at which trades could be executed based on historical trades executed at broker-quoted or slightly higher prices.

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

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

Funds Withheld Receivables and Future Policy Holder Benefits Reserve

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

Derivative Financial Instruments

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

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

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

Compass’ natural gas derivatives are swap contracts for notional Mmbtus of natural gas at posted price indexes, including NYMEX Henry Hub (“HH”) swap contracts. The asset and liability values attributable to natural gas derivatives as of the end of the reporting period are based on (i) the contracted notional volumes, (ii) independent active NYMEX futures price quotes for HH for natural gas swaps, and (iii) the applicable credit-adjusted risk-free rate curve, as described above.

Quantitative information regarding significant unobservable inputs used for recurring Level 3 fair value measurements of financial instruments carried at fair value as of June 30, 2014 and September 30, 2013 are as follows:

			Fair Value at		Range (Weighted average)	
Assets	**Valuation Technique**	**Unobservable Input(s)**	**June 30, 2014**	**September 30, 2013**	**June 30, 2014**	**September 30, 2013**
Contingent purchase price reduction receivable	Discounted cash flow	Probability of collection	$ 41.5	$ 41.0	88% - 96% (92%)	88% - 96% (92%)
		Expected term			7.5 months	9 months
		Discount rate			1%	1%
		Credit insurance risk premium			12%	11%
Asset-backed securities	Broker-quoted	Offered quotes	5.9	5.0	102%	103%
Commercial mortgage-backed securities	Broker-quoted	Offered quotes	83.9	5.7	104% - 121% (119%)	96%
Corporates	Broker-quoted	Offered quotes	653.5	404.5	62% - 121% (100%)	0% - 113% (90%)
Corporates	Matrix Pricing	Quoted prices	91.7	56.6	96% - 142% (102%)	90% - 131% (97%)
Municipal	Broker-quoted	Offered quotes	36.5	—	117%	—
Equity	Broker-quoted	Offered quotes	6.0	—	100%	—
	Option Pricing	Risk-adjusted rate	—	10.7		25.0%
		Risk-free discount factor				0.999
		Risk-adjusted discount factor				0.995
		Upward movement factor (Mu)				1.1
		Downward movement factor (Md)				0.9
		Probability of upward movement (Pu)				48.6%
		Probability of downward movement (Pd)				51.4%
Other invested assets	Black Scholes model	Net asset value of AnchorPath fund	11.6	—	100%	—
Total			$ 930.6	$ 523.5		
Liabilities						
FIA embedded derivatives, included in contractholder funds	Discounted cash flow	Market value of option	$ 1,864.5	$ 1,544.4	0% - 48% (4%)	0% - 38% (4%)
		SWAP rates			2% - 3% (2%)	2% - 3% (2%)
		Mortality multiplier			80%	80%
		Surrender rates			0.50% - 75% (7%)	0.50% - 75% (7%)
		Non-performance spread			0.25%	0.25%

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

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

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

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

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

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

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

	Three months ended June 30, 2014							
		Total Gains (Losses)						
	Balance at Beginning of Period	Included in Earnings	Included in AOCI	Purchases	Sales	Settlements	Net transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets								
Contingent purchase price reduction receivable	$ 41.5	$ —	$ —	$ —	$ —	$ —	$ —	$ 41.5
Fixed maturity securities available-for-sale:								
Asset-backed securities	10.7	—	—	—	—	—	(4.8)	5.9
Commercial mortgage-backed securities	—	—	0.1	83.8	—	—	—	83.9
Corporates	657.0	—	14.4	88.9	(1.0)	—	(14.1)	745.2
Municipals	35.6	—	0.9	—	—	—	—	36.5
Equity securities - trading	10.8	1.2	—	1.5	—	(13.5)	—	—
Equity securities - available-for-sale	—	—	0.5	5.5	—	—	—	6.0
Other invested assets	—	0.3	—	11.3	—	—	—	11.6
Total assets at fair value	$ 755.6	$ 1.5	$ 15.9	$ 191.0	$ (1.0)	$ (13.5)	$ (18.9)	$ 930.6

		Total (Gains) Losses						
	Balance at Beginning of Period	Included in Earnings	Included in AOCI	Purchases	Sales	Settlements	Net transfer In (Out) of Level 3	Balance at End of Period
Liabilities								
FIA embedded derivatives, included in contractholder funds	$ 1,718.7	$ 145.8	$ —	$ —	$ —	$ —	$ —	$ 1,864.5
Front Street future policyholder benefit liability	151.0	5.1	—	—	—	(1.2)	—	154.9
Equity conversion feature of preferred stock	364.8	(38.0)	—	—	—	(326.8)	—	—
Total liabilities at fair value	$ 2,234.5	$ 112.9	$ —	$ —	$ —	$ (328.0)	$ —	$ 2,019.4

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

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

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

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

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

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

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

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

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

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

FGL reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes may result in a reclassification of certain financial assets or liabilities. Such reclassifications are reported as transfers in and out of Level 3, or between other levels, at the beginning fair value for the reporting period in which the changes occur. There were no transfers between Level 1 and Level 2 for the three and nine months ended June 30, 2014. FGL transferred $79.3 U.S. Government securities from Level 1 into Level 2 for the three and nine months ended June 30, 2013 reflecting the level of market activity in these instruments.

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

Non-Recurring Fair Value Measurements

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

Financial Assets and Liabilities Not Measured at Fair Value

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

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

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

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

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

Valuation Methodology

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

The fair value of the Preferred Stock, excluding the equity conversion feature, is derived under the same model and using the same inputs and assumptions, as is used to determine the fair value of the equity conversion feature of said redeemable preferred stock, as is discussed in the disclosures pertaining to financial instruments measured at fair value above.

The fair value of the asset-based loans originated by Salus approximate their carrying value. Such loans carry a variable rate that are typically revolving in nature and are collateralized by the borrower's assets.

(7) Goodwill and Intangibles, including deferred acquisition costs and value of business acquired, net

A summary of the changes in the carrying amounts of goodwill and intangible assets, including FGL's DAC and VOBA balances, are as follows:

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

Intangible assets are recorded at cost or at fair value if acquired in a purchase business combination. Definite lived intangible assets include customer relationships, proprietary technology intangibles and certain trade names that are amortized using the straight-line method over their estimated useful lives of ranging from one to twenty years.

Goodwill and indefinite lived trade name intangibles are not amortized and are tested for impairment at least annually at the Company's August financial period end, or more frequently if an event or circumstance indicates that an impairment loss may have been incurred between annual impairment tests.

During the nine months ended June 30, 2014, Spectrum Brands recorded an adjustment of $3.5 to goodwill to finalize the purchase accounting for the acquisition of the HHI Business from Stanley Black & Decker. The adjustment related to changes in the valuation of working capital accounts and deferred taxes based on the final determination of fair value. These adjustments were not retrospectively applied to the opening balance sheet as the amounts were deemed immaterial.

During the nine month period ended June 30, 2014, the Company recorded additions to goodwill and intangible assets related to the acquisitions of Liquid Fence, FOH and CorAmerica. See Note 3, Acquisitions, for further detail.

Amortization of DAC and VOBA is based on the amount of gross margins or profits recognized, including investment gains and losses. The adjustment for unrealized net investment losses represents the amount of DAC and VOBA that would have been amortized if such unrealized gains and losses had been recognized. This is referred to as the "shadow adjustments" as the additional amortization is reflected in other comprehensive income rather than the statement of operations. As of June 30, 2014 and September 30, 2013, the VOBA balance included cumulative adjustments for net unrealized investment (gains) of $(189.7) and $(81.4), respectively, and the DAC balances included cumulative adjustments for net unrealized investment (gains) losses of $(64.4) and $18.6, respectively. Amortization of VOBA and DAC for the three months ended June 30, 2014 and June 30, 2013 was $10.8 and $37.3, and $9.4 and $27.4, respectively. Amortization of VOBA and DAC for the nine months ended June 30, 2014 and June 30, 2013 was $34.9 and $113.0, and $25.4 and $50.1, respectively.

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

Definite lived intangible assets are summarized as follows:

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

Amortization expense for definite lived intangible assets is as follows:

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

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

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

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

(8) Debt

The Company’s consolidated debt consists of the following:

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

HGI

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

In May 2014, HGI exchanged $320.6 of its outstanding Senior Secured Notes for $350.0 aggregate principal amount of Additional 7.75% Notes. On May 30, 2014, participating holders received $1,091.71 principal amount of Additional 7.75% Notes for each $1,000 principal amount of Senior Secured Notes. As part of the exchange the Company also received modifications to the indenture governing the Senior Secured Notes, increasing the Company’s ability to make certain restricted payments, such as repurchases of the Company's common stock. Following settlement, HGI has $604.4 in aggregate principal amount of the Senior Secured Notes outstanding and $550.0 in aggregate principal amount of 7.75% Notes due 2022 outstanding.

The Company has the option to redeem the 7.75% Notes prior to January 15, 2017 at a redemption price equal to 100% of the principal amount plus a make-whole premium and accrued and unpaid interest, if any, to the date of redemption. At any time on or after January 15, 2017, the Company may redeem some or all of the 7.75% Notes at certain fixed redemption prices expressed as percentages of the principal amount, plus accrued and unpaid interest. At any time prior to January 15, 2017, the Company may redeem up to 35% of the original aggregate principal amount of the 7.75% Notes with net cash proceeds received by us from certain equity offerings at a price equal to 107.75% of the principal amount of the 7.75% Notes redeemed, plus accrued and unpaid interest, if any, to the date of redemption, provided that redemption occurs within 90 days of the closing date of such equity offering, and at least 65% of the aggregate principal amount of the 7.75% Notes remains outstanding immediately thereafter.

At June 30, 2014, the Company was in compliance with all covenants under the indentures governing the 7.875% Senior Secured Notes and the 7.75% Notes.

Spectrum Brands

Term Loan

In December 2013, Spectrum Brands amended the senior term loan facility (the "Term Loan"), issuing two tranches maturing September 4, 2019 which provide for borrowings in aggregate principal amounts of $215.0 and €225.0 (the "Euro Term Loan Debt"). The proceeds from the amendment were used to refinance a portion of the Term Loan (formerly Tranche B) which was scheduled to mature December 17, 2019 and had an aggregate amount outstanding of $513.3 prior to refinancing. The $215.0 additional U.S. dollar denominated portion was combined with the existing Tranche C maturing September 4, 2019. Spectrum Brands recorded accelerated amortization of portions of the unamortized discount and unamortized debt issuance costs related to the refinancing of the Term Loan totaling $9.2 as an adjustment to interest expense during the nine month period ended June 30, 2014.

The additional Tranche C and Euro Term Loan debt were issued at a 0.125% discount and recorded net of the discount incurred. Of this discount, $0.5 is reflected as an adjustment to the carrying value of principal, and is being amortized with a corresponding charge to interest expense over the remaining life of the debt, and the remainder of $0.1 is reflected as an increase to interest expense during the nine month period ended June 30, 2014. In connection with the refinancing of a portion of the Term Loan, Spectrum Brands recorded $0.2 and $7.2 of fees during the three and nine month periods ended June 30, 2014, respectively, of which $5.2 is classified as debt issuance costs within the accompanying Condensed Consolidated Balance Sheets and is being amortized as an adjustment to interest expense over the remaining life of the Term Loan, with the remainder of $2.1 reflected as an increase to interest expense during the nine month period ended June 30, 2014.

ABL Facility

In connection with the December 2013 amendment of the Term Loan, Spectrum Brands amended its asset based lending revolving credit facility (the “ABL Facility”) to obtain certain consents to the amendment of the senior credit agreement. In connection with the amendment, Spectrum Brands incurred fees and expenses that are included in the amounts recorded above related to the amendment of the Term Loan.

As a result of borrowings and payments under the ABL Facility, at June 30, 2014, Spectrum Brands had aggregate borrowing availability of approximately $193.8, net of lender reserves of $6.4 and outstanding letters of credit of $54.1.

Compass Credit Agreement

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

Salus

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

(9) Defined Benefit Plans

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

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

(10) Reinsurance

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

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

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

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

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

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

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

Front Street

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

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

(11) Stock Compensation

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

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

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

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

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

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

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

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

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

HGI

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

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

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

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

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

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

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

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

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

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

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

Spectrum Brands

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

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

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

FGL

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

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

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

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

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

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

(12) Income Taxes

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

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

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

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

Effective October 1, 2012, Spectrum Brands' management decided to not permanently reinvest earnings for the fiscal year ended September 30, 2012, and prospectively. Foreign earnings that are currently remitted will be used by Spectrum Brands to prepay its U.S. debt, repurchase shares and fund U.S. acquisitions and ongoing U.S. operational cash flow requirements. As a result of the valuation allowance recorded against Spectrum Brands’ U.S. net deferred tax assets, including net operating loss carryforwards, Spectrum Brands does not expect to incur incremental U.S. tax expense on expected future repatriations of foreign earnings. For the fiscal year ending

September 30, 2014, Spectrum Brands expect to accrue less than $2.0 of additional foreign tax expense from non-U.S. withholding and other taxes expected to be incurred as a result of the repatriation of current foreign earnings.

During the nine months ended June 30, 2014, Spectrum Brands recorded a $178.7 reduction of its U.S. net operating loss carryforwards as a result of actual and deemed repatriations of foreign earnings. Due to full valuation allowances on the Spectrum Brands' U.S. net operating loss carryforwards, there was no material impact on Spectrum Brands’ quarterly or projected annual income tax expense.

(13) Earnings Per Share

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

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Net income (loss) attributable to common and participating preferred stockholders	$ 49.0	$ 91.6	$ (77.6)	$ 108.1
Participating shares at end of period:				
Common shares outstanding	201,043	140,576	201,043	140,576
Preferred shares (as-converted basis)	—	61,987	—	61,987
Total	201,043	202,563	201,043	202,563
Percentage of income (loss) allocated to:				
Common shares	100.0%	69.4%	100.0%	69.4%
Preferred shares (a)	—%	30.6%	—%	30.6%
Net income (loss) attributable to common shares - basic	$ 49.0	$ 63.6	$ (77.6)	$ 75.0
Dilutive adjustments to income (loss) attributable to common shares from assumed conversion of preferred shares, net of tax:				
Income allocated to preferred shares in basic calculation	—	28.0	—	33.1
Reversal of preferred stock dividends and accretion	—	12.0	—	36.3
Reversal of income related to fair value of preferred stock conversion feature	—	(52.6)	—	(81.9)
Net adjustment	—	(12.6)	—	(12.5)
Net income (loss) attributable to common shares - diluted	$ 49.0	$ 51.0	$ (77.6)	$ 62.5
Weighted-average common shares outstanding - basic	172,967	140,292	150,675	139,832
Dilutive effect of preferred stock	—	62,413	—	62,555
Dilutive effect of unvested restricted stock and restricted stock units	3,798	1,853	—	2,231
Dilutive effect of stock options	1,281	662	—	612
Weighted-average shares outstanding - diluted	178,046	205,220	150,675	205,230
Net income (loss) per common share attributable to controlling interest:				
Basic	$ 0.28	$ 0.45	$ (0.52)	$ 0.54
Diluted	$ 0.28	$ 0.25	$ (0.52)	$ 0.30

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

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

For the three months ended June 30, 2014, there were 28,911 thousand weighted-average shares issuable upon the conversion of the Preferred Stock that were excluded from the calculation of “diluted net loss per common share attributable to controlling interest” because the as-converted effect of the Preferred Stock would have been anti-dilutive for the three months ended June 30, 2014.

For the nine months ended June 30, 2014, there were 50,979 thousand weighted-average shares issuable upon the conversion of the Preferred Stock, and 2,380 thousand and 1,297 thousand weighted-average shares, respectively, of the unvested restricted stock and stock units and stock options that were excluded from the calculation of “diluted net loss per common share attributable to controlling interest” because the as-converted effect of the Preferred Stock and unvested restricted stock and stock units and stock options would have been anti-dilutive for the nine months ended June 30, 2014.

Also excluded from the calculation were 3 million warrants because the exercise price of $13.25 per share was above the average stock price for the three and nine months ended June 30, 2014.

(14) Commitments and Contingencies

The Company has aggregate reserves for its legal, environmental and regulatory matters of approximately $24.9 at June 30, 2014. These reserves relate primarily to the matters described below. However, based on currently available information, including legal defenses available to the Company, and given the aforementioned reserves and related insurance coverage, the Company does not believe that the outcome of these legal, environmental and regulatory matters will have a material effect on its financial position, results of operations or cash flows.

Legal and Environmental Matters

HGI

HGI is a nominal defendant, and the members of its board of directors are named as defendants in a purported class and derivative action filed in March 2014 by Haverhill Retirement System in the Delaware Court of Chancery. Harbinger Capital Partners LLC and certain of its affiliated funds (“HCP”) and Leucadia National Corporation (“Leucadia”), each a stockholder of HGI, are also named as defendants in the complaint. The complaint alleges, among other things, that the defendants breached their fiduciary duties in connection with transactions involving Leucadia. The complaint seeks, among other things, an unspecified award of compensatory damages and costs and disbursements. The Company believes the allegations are without merit and intends to vigorously defend this matter.

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

In a pending case before the U.S. District Court for the Southern District of New York, in which FGL is suing OM Group (UK) Limited (“OMGUK”) for a $50.0 purchase price adjustment in connection with HGI’s acquisition of FGL’s subsidiaries on April 6, 2011, OMGUK counterclaimed that FGL breached its obligations under the First Amended and Restated Stock Purchase Agreement dated February 17, 2011 (“F&G Stock Purchase Agreement”) to pay required fees to OMGUK related to the financing of reserves referred to as “CARVM”. FGL has opposed this counterclaim. On May 27, 2014, the court granted OMGUK’s motion for summary judgment as to the CARVM fees. OMGUK must still prove damages at trial, which it estimates to be approximately $6.1. Trial of the counterclaim, as well as FGL’s claim for $50.0, is scheduled for October 20, 2014. HGI is considering taking an appeal of any judgment following trial on the CARVM counterclaim. HGI owns all of the rights, title, interest, liabilities and obligations under this litigation against OMGUK.

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

Spectrum Brands

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

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

FGL

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

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

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

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

On July 5, 2013, the Plaintiff filed a putative class action captioned Eddie L. Cressy v. Fidelity Guaranty Life Insurance Company, et al., in the Superior Court of California, County of Los Angeles, at No. BC-514340. The state court Complaint asserts, *inter alia*, that the Plaintiff and members of the putative class relied on Defendants' advice in purchasing unsuitable equity-indexed insurance policies. The Plaintiff seeks to certify a class defined as "all persons who reside or are located in the state of California who were sold OM Financial/FGL Insurance equity-indexed universal life insurance policies as an investment."

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

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

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

Compass

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

Guarantees

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

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

Unfunded Asset Based Lending Commitments

Through Salus, the Company enters into commitments to extend credit to meet the financing needs of its asset based lending customers upon satisfaction of certain conditions. At June 30, 2014, the notional amount of unfunded, legally binding lending commitments was approximately $164.6, of which $37.0 expires in one year or less, and the remainder expires between one and five years.

(15) Related Party Transactions

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

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

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

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

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

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

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

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

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

(16) Segment Data

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

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Revenues:				
Consumer Products	$ 1,128.5	$ 1,089.8	$ 3,250.8	$ 2,947.8
Insurance	419.5	279.7	1,066.7	1,025.6
Energy	37.6	37.8	112.3	54.5
Asset Management	11.3	7.1	25.6	20.8
Intersegment elimination	(2.2)	(5.2)	(9.5)	(6.1)
Consolidated segment revenues	1,594.7	1,409.2	4,445.9	4,042.6
Corporate and Other	4.7	—	4.7	—
Total revenues	$ 1,599.4	$ 1,409.2	$ 4,450.6	$ 4,042.6
Operating income:				
Consumer Products	$ 148.7	$ 115.7	$ 366.3	$ 236.1
Insurance	108.6	83.3	220.2	354.9
Energy	8.6	4.8	(57.2)	5.3
Asset Management	3.1	2.4	3.2	10.2
Intersegment elimination	(2.0)	(6.1)	(9.7)	(6.1)
Total segments	267.0	200.1	522.8	600.4
Corporate and eliminations	(37.9)	(17.5)	(98.2)	(68.4)
Consolidated operating income	229.1	182.6	424.6	532.0
Interest expense	(77.9)	(83.9)	(239.1)	(302.7)
Gain (loss) from the change in the fair value of the equity conversion feature of preferred stock	38.0	52.6	(12.7)	81.9
Gain on contingent purchase price reduction	—	—	0.5	—
Other income (expense), net	6.0	4.2	(10.5)	(7.7)
Income from continuing operations before income taxes	$ 195.2	$ 155.5	$ 162.8	$ 303.5

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

(17) Consolidating Financial Information

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

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

Harbinger Group Inc. - Condensed Consolidating Balance Sheets Information

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

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

Harbinger Group Inc. - Condensed Consolidating Statements of Operations Information

Nine months ended June 30, 2014	Consumer Products	Insurance	Energy	Asset Management	Corporate and Other	Eliminations	Total
Revenues:							
Net consumer and other product sales	$ 3,250.8	$ —	$ —	$ —	$ 4.7	$ —	$ 3,255.5
Oil and natural gas	—	—	112.3	—	—	—	112.3
Insurance premiums	—	42.0	—	—	—	—	42.0
Net investment income	—	602.9	—	25.6	—	(10.0)	618.5
Net investment gains	—	366.9	—	—	—	0.5	367.4
Insurance and investment product fees and other	—	54.9	—	—	—	—	54.9
Total revenues	3,250.8	1,066.7	112.3	25.6	4.7	(9.5)	4,450.6
Operating costs and expenses:							
Cost of consumer products and other goods sold	2,092.9	—	—	—	3.5	—	2,096.4
Oil and natural gas direct operating costs	—	—	50.9	—	—	—	50.9
Benefits and other changes in policy reserves	—	696.3	—	—	—	—	696.3
Selling, acquisition, operating and general expenses	730.4	89.9	37.6	22.4	99.4	0.2	979.9
Impairment of oil and gas properties	—	—	81.0	—	—	—	81.0
Amortization of intangibles	61.2	60.3	—	—	—	—	121.5
Total operating costs and expenses	2,884.5	846.5	169.5	22.4	102.9	0.2	4,026.0
Operating income (loss)	366.3	220.2	(57.2)	3.2	(98.2)	(9.7)	424.6
Equity in net income (losses) of subsidiaries	—	(1.8)	—	—	159.8	(158.0)	—
Interest expense	(151.7)	(16.9)	(5.9)	—	(64.6)	—	(239.1)
Affiliated interest expense	—	0.2	(6.8)	(4.4)	(0.5)	11.5	—
Gain (loss) from the change in the fair value of the equity conversion feature of preferred stock	—	—	—	—	(12.7)	—	(12.7)
Gain on contingent purchase price reduction	—	—	—	—	0.5	—	0.5
Other expense, net	(4.4)	—	(12.4)	(0.7)	11.1	(4.1)	(10.5)
(Loss) income from continuing operations before income taxes	210.2	201.7	(82.3)	(1.9)	(4.6)	(160.3)	162.8
Income tax expense	43.8	35.2	—	(0.1)	—	(0.2)	78.7
Net income	166.4	166.5	(82.3)	(1.8)	(4.6)	(160.1)	84.1
Less: Net income (loss) attributable to noncontrolling interest	69.0	19.7	—	—	(0.6)	—	88.1
Net income (loss) attributable to controlling interest	97.4	146.8	(82.3)	(1.8)	(4.0)	(160.1)	(4.0)
Less: Preferred stock dividends, accretion and loss on conversion	—	—	—	—	73.6	—	73.6
Net income (loss) attributable to common and participating preferred stockholders	$ 97.4	$ 146.8	$ (82.3)	$ (1.8)	$ (77.6)	$ (160.1)	$ (77.6)

Nine months ended June 30, 2013	Consumer Products	Insurance	Energy	Asset Management	Corporate and Other	Eliminations	Total
Revenues:							
Net consumer and other product sales	$ 2,947.8	$ —	$ —	$ —	$ —	$ —	$ 2,947.8
Oil and natural gas	—	—	54.5	—	—	—	54.5
Insurance premiums	—	46.9	—	—	—	—	46.9
Net investment income	—	522.8	—	20.8	—	(6.1)	537.5
Net investment gains	—	411.5	—	—	—	—	411.5
Insurance and investment product fees and other	—	44.4	—	—	—	—	44.4
Total revenues	2,947.8	1,025.6	54.5	20.8	—	(6.1)	4,042.6
Operating costs and expenses:							
Cost of consumer products and other goods sold	1,954.0	—	—	—	—	—	1,954.0
Oil and natural gas operating costs	—	—	26.9	—	—	—	26.9
Benefits and other changes in policy reserves	—	431.7	—	—	—	—	431.7
Selling, acquisition, operating and general expenses	700.2	75.9	22.3	10.6	68.4	—	877.4
Amortization of intangibles	57.5	163.1	—	—	—	—	220.6
Total operating costs and expenses	2,711.7	670.7	49.2	10.6	68.4	—	3,510.6
Operating income	236.1	354.9	5.3	10.2	(68.4)	(6.1)	532.0
Equity in net income of subsidiaries	—	—	—	—	233.0	(233.0)	—
Interest expense	(191.8)	(5.9)	(2.8)	—	(102.2)	—	(302.7)
Affiliated interest expense	—	—	(3.4)	(2.7)	—	6.1	—
Loss from the change in the fair value of the equity conversion feature of preferred stock	—	—	—	—	81.9	—	81.9
Other (expense) income, net	(7.9)	0.2	0.8	(0.9)	0.1	—	(7.7)
Income from continuing operations before income taxes	36.4	349.2	(0.1)	6.6	144.4	(233.0)	303.5
Income tax expense	54.9	112.1	—	0.2	—	—	167.2
Net income	(18.5)	237.1	(0.1)	6.4	144.4	(233.0)	136.3
Less: Net income attributable to noncontrolling interest	(8.5)	—	—	0.4	—	—	(8.1)
Net income attributable to controlling interest	(10.0)	237.1	(0.1)	6.0	144.4	(233.0)	144.4
Less: Preferred stock dividends, accretion and loss on conversion	—	—	—	—	36.3	—	36.3
Net income attributable to common and participating preferred stockholders	$ (10.0)	$ 237.1	$ (0.1)	$ 6.0	$ 108.1	$ (233.0)	$ 108.1

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

Introduction

This "Management’s Discussion and Analysis of Financial Condition and Results of Operations" of Harbinger Group Inc. ("HGI," "we," "us," "our" and, collectively with its subsidiaries, the "Company") should be read in conjunction with our unaudited condensed consolidated financial statements included elsewhere in this report and "Management’s Discussion and Analysis of Financial Condition and Results of Operations" of HGI which was included with our annual report filed on Form 10-K with the Securities and Exchange Commission (the "SEC") on November 27, 2013 (the "Form 10-K"). Certain statements we make under this Item 2 constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. See "Forward-Looking Statements" in "Part II — Other Information" of this report. You should consider our forward-looking statements in light of our unaudited condensed consolidated financial statements, related notes, and other financial information appearing elsewhere in this report, the Form 10-K and our other filings with the SEC. In this Quarterly Report on Form 10-Q we refer to the three and nine months ended June 30, 2014 as the "Fiscal 2014 Quarter" and the "Fiscal 2014 Nine Months", respectively, and the three and nine months ended June 30, 2013 as the "Fiscal 2013 Quarter" and the "Fiscal 2013 Nine Months," respectively.

HGI Overview

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

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

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

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

Consumer Products Segment

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

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

Insurance Segment

Through FGL, we are a provider of annuity and life insurance products to the middle and upper-middle income markets in the United States. With its principal headquarters based in Des Moines, Iowa, and Baltimore, Maryland, FGL operates in the United States through its subsidiaries Fidelity & Guaranty Life Insurance Company (“FGL

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

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

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

Energy Segment

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

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

Asset Management Segment

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

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

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

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

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

Significant Transactions and Activity

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

Consumer Products segment

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

Insurance segment

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

Asset Management segment

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

Energy segment

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

Corporate and Other segment

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

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

Key financial highlights

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

resulting from the offset between the higher revenue previously discussed, and increased overhead to support growth.

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

Results of Operations

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

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

	Fiscal Quarter			Fiscal Nine Months		
	2014	2013	Increase / (Decrease)	2014	2013	Increase / (Decrease)
Revenues:						
Consumer Products	$ 1,128.5	$ 1,089.8	$ 38.7	$ 3,250.8	$ 2,947.8	$ 303.0
Insurance	419.5	279.7	139.8	1,066.7	1,025.6	41.1
Energy	37.6	37.8	(0.2)	112.3	54.5	57.8
Asset Management	11.3	7.1	4.2	25.6	20.8	4.8
Intersegment elimination	(2.2)	(5.2)	3.0	(9.5)	(6.1)	(3.4)
Consolidated segment revenues	1,594.7	1,409.2	185.5	4,445.9	4,042.6	403.3
Corporate and Other	4.7	—	4.7	4.7	—	4.7
Total revenues	$ 1,599.4	$ 1,409.2	$ 190.2	$ 4,450.6	$ 4,042.6	$ 408.0
Operating income:						
Consumer Products	$ 148.7	$ 115.7	$ 33.0	$ 366.3	$ 236.1	$ 130.2
Insurance	108.6	83.3	25.3	220.2	354.9	(134.7)
Energy	8.6	4.8	3.8	(57.2)	5.3	(62.5)
Asset Management	3.1	2.4	0.7	3.2	10.2	(7.0)
Intersegment elimination	(2.0)	(6.1)	4.1	(9.7)	(6.1)	(3.6)
Total segments	267.0	200.1	66.9	522.8	600.4	(77.6)
Corporate and Other	(37.9)	(17.5)	(20.4)	(98.2)	(68.4)	(29.8)
Consolidated operating income	229.1	182.6	46.5	424.6	532.0	(107.4)
Interest expense	(77.9)	(83.9)	6.0	(239.1)	(302.7)	63.6
Gain (loss) from the change in the fair value of the equity conversion feature of preferred stock	38.0	52.6	(14.6)	(12.7)	81.9	(94.6)
Gain on contingent purchase price reduction	—	—	—	0.5	—	0.5
Other income (expense), net	6.0	4.2	1.8	(10.5)	(7.7)	(2.8)
Consolidated income from continuing operations before income taxes	195.2	155.5	39.7	162.8	303.5	(140.7)
Income tax expense	53.7	36.8	16.9	78.7	167.2	(88.5)
Net income	141.5	118.7	22.8	84.1	136.3	(52.2)
Less: Net income (loss) attributable to noncontrolling interest	43.2	15.1	28.1	88.1	(8.1)	96.2
Net income (loss) attributable to controlling interest	98.3	103.6	(5.3)	(4.0)	144.4	(148.4)
Less: Preferred stock dividends, accretion and loss on conversion	49.3	12.0	37.3	73.6	36.3	37.3
Net income (loss) attributable to common and participating preferred stockholders	$ 49.0	$ 91.6	$ (42.6)	$ (77.6)	$ 108.1	$ (185.7)

Revenues. Revenues for the Fiscal 2014 Quarter increased $190.2 million, or 13.5%, to $1,599.4 million from $1,409.2 million for the Fiscal 2013 Quarter. The increase was primarily driven by higher unrealized gains on derivative instruments and realized gains on available-for-sale securities, and higher sales of hardware and home improvement products, home and garden control products and consumer batteries in our Consumer Products segment.

Revenues for the Fiscal 2014 Nine Months increased $408.0 million, or 10.1%, to $4,450.6 million from $4,042.6 million for the Fiscal 2013 Nine Months. The increase was primarily driven by the full period effect of the acquisition of the hardware and home improvement product line and higher sales of home and garden control products and consumer batteries in our Consumer Products segment during the Fiscal 2013 Nine Months, the full period impact of our acquisition of an equity interest in an oil and gas joint venture, Compass, in February 2013 and an increase in investment income and gains resulting from the deployment of cash in our Insurance segment, offset by lower realized investment gains and losses in our Insurance segment resulting from the completion of portfolio repositioning trading activity in the Fiscal 2013 Nine Months which had generated higher realized investment gains.

Consolidated operating income. Consolidated operating income for the Fiscal 2014 Quarter increased $46.5 million, or 25.5%, to $229.1 million from $182.6 million for the Fiscal 2013 Quarter. The increase is primarily due to our Consumer Products and Insurance segments as compared to the Fiscal 2013 Quarter. These increases resulted from, respectively, higher gross margins and cost savings in the Consumer Products segment, and higher investment yields and lower acquisition cost amortization in the Insurance segment, offset in part by higher corporate expenses primarily due to higher performance-based bonus expense, higher stock-based compensation expense and additional estimated legal contingency reserves.

Consolidated operating income for the Fiscal 2014 Nine Months decreased $107.4 million, or 20.2%, to $424.6 million from $532.0 million for the Fiscal 2013 Nine Months. The decrease is primarily due to lower operating income originating from our Insurance segment as a result of the conclusion of the Fiscal 2013 portfolio repositioning that had resulted in higher realized investment gains in the Fiscal 2013 Nine Months, the recognition of an $81.0 million ceiling-test impairment in our Energy segment, and higher corporate expenses primarily due to higher stock based compensation expense amortization. These decreases in operating income were offset in part by our Consumer Products segment as a result of the full period impact of the hardware and home improvement acquisition in December 2013, and an overall decrease in acquisition and integration related charges.

Interest Expense. Interest expense decreased $6.0 million to $77.9 million for the Fiscal 2014 Quarter from $83.9 million for the Fiscal 2013 Quarter. The decrease is primarily due to refinancing to lower rate debt during Fiscal 2013, offset in part by higher overall debt levels at the Corporate and Other segment.

Interest expense decreased $63.6 million to $239.1 million for the Fiscal 2014 Nine Months from $302.7 million for the Fiscal 2013 Nine Months. The decrease is primarily due to (i) the non-recurrence of penalties, fees and deferred financing fee write-offs incurred in the Fiscal 2013 Nine Months relating to the debt refinancing and costs incurred by Spectrum Brands associated with the financing of the Hardware Acquisition; and (ii) refinancing to lower interest rate debt during the course of Fiscal 2013.

Gain (loss) from the change in the fair value of the equity conversion feature of preferred stock. The gain from the change in the fair value of the equity conversion feature of the preferred stock of $38.0 million for the Fiscal 2014 Quarter was principally due to a decrease in the market price of our common stock from $12.23 to $11.69 per share during the Fiscal 2014 Quarter through the date of the conversion of our Preferred Stock on May 15, 2014. During the Fiscal 2013 Quarter the gain from the change in the fair value of the equity conversion feature of the preferred stock of $52.6 million was principally due to a decrease in the market price of our common stock from $8.26 to $7.54 per share during the Fiscal 2013 Quarter.

The loss from the change in the fair value of the equity conversion feature of the preferred stock of $12.7 million for the Fiscal 2014 Nine Months was principally due to an increase in the market price of our common stock from $10.37 to $11.69 per share during the Fiscal 2014 Nine Months through the date of the conversion of our Preferred Stock on May 15, 2014. During the Fiscal 2013 Nine Months the gain from the change in the fair value of the equity conversion feature of the preferred stock of $81.9 million was principally due to a decrease in the market price of our common stock from $8.43 to $7.54 per share during the Fiscal 2013 Nine Months.

Other income (expense), net. Other income (expense), net decreased $1.8 million to $6.0 million for the Fiscal 2014 Quarter from $4.2 million for the Fiscal 2013 Nine Months. The decrease is primarily due to oil and natural gas derivative losses incurred as a result of rising oil and natural gas prices.

Other expense, net increased $2.8 million to $10.5 million for the Fiscal 2014 Nine Months from $7.7 million for the Fiscal 2013 Nine Months. The increase resulted from an increase in foreign exchange losses arising from foreign exchange 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 the Fiscal 2013 Nine Months.

Income Taxes. For the Fiscal 2014 Quarter and Fiscal 2014 Nine Months our effective tax rates were 27.5% and 48.3%, respectively. They differ from the U.S. Federal statutory rate of 35% primarily due to: (i) the profitability of FGL's life insurance business; (ii) net operating losses in the United States and some foreign jurisdictions for which the tax benefits are offset by valuation allowances; and (iii) tax amortization of certain indefinite lived intangibles. Partially offsetting these factors in the Fiscal 2014 Quarter and Fiscal 2014 Nine Months, was the release of U.S. valuation allowances totaling $35.0 million on deferred tax assets that FGL has determined are more-likely-than-not-realizable due to viable tax planning strategies.

Net operating loss ("NOL") and tax credit carryforwards of HGI, Spectrum Brands and FGL are subject to valuation allowances, as we concluded that all or a portion of the associated tax benefits are not more-likely than-not realizable. Utilization of NOL and other tax carryforwards of HGI, 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 period.

For the Fiscal 2014 Nine Months, Spectrum Brands generated domestic pretax profits and expects to generate domestic pretax profits during the remainder of Fiscal 2014. Should Spectrum Brands continue to generate domestic pretax profits for Fiscal 2014 and in subsequent periods, there is a reasonable possibility that a portion of the domestic valuation allowance of $316.0 million could be released in the next twelve to twenty-four months.

For the Fiscal 2013 Quarter and Fiscal 2013 Nine Months, our effective tax rate of 23.7% and 55.1%, respectively, were negatively impacted by: (i) the profitability of FGL's life insurance business; (ii) pre-tax losses in the United States and some foreign jurisdictions for which the tax benefits are offset by valuation allowances; and (iii) tax amortization of certain indefinite lived intangibles, resulting deferred tax liabilities are not a source of income for the realization of deferred tax assets; therefore, this causes higher valuation allowances. Partially offsetting these factors in the Fiscal 2013 Nine Months were: (i) the release of U.S. valuation allowances totaling $49.3 million on deferred tax assets that Spectrum Brands determined are more-likely-than-not realizable as a result of an acquisition and (ii) $81.9 million of non-taxable income resulting from a decrease in the fair value of the equity conversion feature of preferred stock.

Spectrum Brands' management decided to not permanently reinvest earnings for the fiscal year ended September 30, 2012, and prospectively. Remitted foreign earnings will be used by Spectrum Brands to prepay its U.S. debt, repurchase shares and fund U.S. acquisitions and ongoing U.S. operational cash flow requirements. As a result of the valuation allowance recorded against Spectrum Brands' U.S. net deferred tax assets, including net operating loss carryforwards, Spectrum Brands does not expect to incur incremental U.S. tax expense on expected future repatriations of foreign earnings. For the fiscal year ended September 30, 2014, we expect to accrue less than $2.0 million of additional foreign tax expense from non-U.S. withholding and other taxes expected to be incurred as a result of the repatriation of current foreign earnings.

During the Fiscal 2014 Nine Months, Spectrum Brands estimated and recorded a $178.7 million reduction of its U.S. net operating loss carryforwards as a result of actual and deemed repatriations of foreign earnings. Due to full valuation allowances on the Spectrum Brands' U.S. net operating loss carryforwards, there was no material impact on Spectrum Brands' quarterly or projected annual income tax expense.

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 HGI.

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; (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.

For purposes of determining the preferred stock non-cash principal accretion amount, we calculated the value of HGI's net assets (the "Preferred Stock NAV") in accordance with terms of the certificates of designation of the preferred stock. In accordance with the certificates of designation, we were required to calculate the Preferred Stock NAV on September 30 and March 31 of each calendar year. The Preferred Stock NAV as of March 31, 2014, calculated in accordance with the certificates of designation, was approximately $2.8 billion. This calculation resulted in no quarterly non-cash accretion for the Fiscal 2014 and 2013 Quarters.

As was noted above, 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.

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 Quarter			Fiscal Nine Months		
	2014	2013	Increase / (Decrease)	2014	2013	Increase / (Decrease)
Net consumer and other product sales	$ 1,128.5	$ 1,089.8	$ 38.7	$ 3,250.8	$ 2,947.8	$ 303.0
Cost of consumer products and other goods sold	711.5	707.0	4.5	2,092.9	1,954.0	138.9
Consumer products gross profit	417.0	382.8	34.2	1,157.9	993.8	164.1
Selling, acquisition, operating and general expenses	247.8	246.8	1.0	730.4	700.2	30.2
Amortization of intangibles	20.5	20.3	0.2	61.2	57.5	3.7
Operating income - Consumer Products segment	$ 148.7	$ 115.7	$ 33.0	$ 366.3	$ 236.1	$ 130.2

Revenues. Net consumer products sales for the Fiscal 2014 Quarter increased $38.7 million, or 3.6%, to $1,128.5 million from $1,089.8 million for the Fiscal 2013 Quarter. The increase in net consumer product sales in the Fiscal 2014 Quarter is primarily due to higher sales of hardware and home improvement products, home and garden control products and consumer batteries. Increased sales of hardware and home improvement products were primarily attributable to the residential security category as a result of strong retail positioning in North America and continued strong housing market in non-retail channels. Also contributing to the sales growth were increases in plumbing and hardware products in the HHI product line. Gains in home and garden control products were due to an increase in repellent products sales driven by market share gains and favorable weather, coupled with an increase in repellent sales related to the acquisition of Liquid Fence. Additionally, household insect control product sales increased due to distribution gains at key retailers. The growth in consumer battery sales was driven by increases lighting category growth in Brazil and distribution gains throughout Central America. Additionally, consumer battery sales in North America and Europe increased due to retailer distribution gains and successful promotional activity. These increases in sales were offset in part by decreases in sales in Spectrum Brands' pet supplies and small appliance product lines. Revenue from the pet supplies product line was negatively impacted by decreased sales in aquatics driven by lower kit and equipment sales in North America and aquatic foods internationally, coupled with a one-time negative impact from product registration costs in Russia. Small appliance revenue was negatively impacted by the exit of low-margin promotions that occurred during the Fiscal 2013 Quarter.

Net consumer products sales for the Fiscal 2014 Nine Months increased $303.0 million, or 10.3%, to $3,250.8 million from $2,947.8 million for the Fiscal 2013 Nine Months. The increase in net consumer product sales in the Fiscal 2014 Nine Months is primarily due to the full period effect of the inclusion of sales from Spectrum Brands' hardware and home improvement product line acquisition that occurred in the Fiscal 2013 Nine Months and increases in sales of Spectrum Brands' home and garden control, consumer batteries and electric personal care products. On a proforma basis, assuming the acquisition had occurred at the beginning of the Fiscal 2013 Nine Months, hardware and home improvement sales increased $84.5 million to $852.2 million in the Fiscal 2014 Nine Months. These increases in sales were offset in part by decreases in sales in Spectrum Brands' pet supplies and small appliance product lines, as well as foreign exchange impacts. Revenue from the pet supplies product line declined primarily due to the factors discussed above for the Fiscal 2014 Quarter coupled with retailer inventory reductions in the first quarter of Fiscal 2014, adverse weather in North America which negatively affected retail store traffic during the second quarter of Fiscal 2014 and the non-recurrence of companion animal promotions that occurred in the first quarter of Fiscal 2013. Small appliance revenue was negatively impacted by the exit of low-margin promotions that occurred during the Fiscal 2013 Quarter.

Consolidated net sales by product line for each of those respective periods are as follows (in millions):

	Fiscal Quarter			Fiscal Nine Months		
Product line net sales	**2014**	**2013**	**Increase (Decrease)**	**2014**	**2013**	**Increase (Decrease)**
Hardware and home improvement products	$ 306.9	$ 285.2	$ 21.7	$ 852.2	$ 575.9	$ 276.3
Consumer batteries	213.4	207.4	6.0	689.2	678.1	11.1
Small appliances	163.9	168.7	(4.8)	533.2	543.4	(10.2)
Pet supplies	152.2	156.4	(4.2)	440.7	456.6	(15.9)
Electric personal care products	54.2	53.7	0.5	203.7	196.7	7.0
Home and garden control products	174.6	156.6	18.0	322.9	289.1	33.8
Electric shaving and grooming products	63.3	61.8	1.5	208.9	208.0	0.9
Total net sales to external customers	$ 1,128.5	$ 1,089.8	$ 38.7	$ 3,250.8	$ 2,947.8	$ 303.0

Cost of consumer products and other goods sold / Consumer products gross profit. Consumer products gross profit, representing net consumer products sales minus consumer products cost of goods sold, for the Fiscal 2014 Quarter was $417.0 million compared to $382.8 million for the Fiscal 2013 Quarter. 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 the Fiscal 2014 Quarter increased to 37.0% from 35.1% in the Fiscal 2013 Quarter.

Consumer products gross profit, representing net consumer products sales minus consumer products cost of goods sold, for the Fiscal 2014 Nine Months was $1,157.9 million compared to $993.8 million for the Fiscal 2013 Nine Months. The increase in gross profit was driven by the full period effect of the inclusion of the hardware and home improvement product line acquisition which contributed $141.0 million in gross profit. Gross profit margin for the Fiscal 2014 Nine Months increased to 35.6% from 33.7% in the Fiscal 2013 Nine Months. The increase in gross profit margin was driven by the non-recurrence of a $31.0 million increase to cost of goods sold due to the sale of inventory that occurred during the Fiscal 2013 Nine Months which was revalued in connection with Spectrum Brands' hardware and home improvement product line acquisition.

Selling, acquisition, operating and general expenses. Selling, acquisition, operating and general expenses increased by $1.0 million, or 0.4%, to $247.8 million for the Fiscal 2014 Quarter, from $246.8 million for the Fiscal 2013 Quarter, which was principally due to increased costs to facilitate the increase in net sales coupled with increase compensation expenses related to Spectrum Brands' bonus plans. These increases were partially offset by decreases in restructuring and related charges as well as acquisition and integration related charges.

Selling, acquisition, operating and general expenses increased by $30.2 million, or 4.3%, to $730.4 million for the Fiscal 2014 Nine Months, from $700.2 million for the Fiscal 2013 Nine Months principally due to Spectrum Brands' hardware and home improvement product line acquisition which accounted for an increase of $60.0 million in operating expenses, tempered by a $26.0 million decrease in acquisition and integration related charges.

Amortization of intangibles. For the Fiscal 2014 Quarter, amortization of intangibles increased $0.2 million, or 1.0%, to $20.5 million from $20.3 million for the Fiscal 2013 Quarter. For the Fiscal 2014 Nine Months, amortization of intangibles increased $3.7 million, or 6.4%, to $61.2 million from $57.5 million for the Fiscal 2013 Nine Months. These increases were primarily due to the increase in amortization of intangibles acquired as part of the hardware and home improvement acquisition in Fiscal 2013.

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 Quarter			Fiscal Nine Months		
	2014	2013	Increase / (Decrease)	2014	2013	Increase / (Decrease)
Insurance premiums	$ 13.3	$ 19.0	$ (5.7)	$ 42.0	$ 46.9	$ (4.9)
Net investment income	202.3	186.3	16.0	602.9	522.8	80.1
Net investment gains	184.1	58.3	125.8	366.9	411.5	(44.6)
Insurance and investment product fees and other	19.8	16.1	3.7	54.9	44.4	10.5
Total Insurance segment revenues	419.5	279.7	139.8	1,066.7	1,025.6	41.1
Benefits and other changes in policy reserves	265.1	107.2	157.9	696.3	431.7	264.6
Acquisition, operating and general expenses, net of deferrals	25.6	24.5	1.1	89.9	75.9	14.0
Amortization of intangibles	20.2	64.7	(44.5)	60.3	163.1	(102.8)
Total Insurance segment operating costs and expenses	310.9	196.4	114.5	846.5	670.7	175.8
Operating income - Insurance segment	$ 108.6	$ 83.3	$ 25.3	$ 220.2	$ 354.9	$ (134.7)

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 the Fiscal 2014 Quarter, premiums decreased $5.7 million, or 30.0% to $13.3 million from $19.0 million for the Fiscal 2013 Quarter. For the Fiscal 2014 Nine Months, premiums decreased $4.9 million, or 10.4%, to $42.0 million from $46.9 million for the Fiscal 2013 Nine Months. The decrease in premiums for quarter over quarter and year over year is primarily due to the rescission of the coinsurance agreement with Wilton Re covering Home Certain disability income riders during the Fiscal 2013 Quarter which resulted in a decrease in ceded premiums of approximately $4.5 million.

Net investment income. For the Fiscal 2014 Quarter, net investment income increased $16.0 million, or 8.6% to $202.3 million from $186.3 million for the Fiscal 2013 Quarter. During the fourth fiscal quarter of 2013, FGL identified opportunities to sell investments in gain positions and invested these proceeds into higher yielding assets during the first half of Fiscal 2014 Year. This resulted in an earned yield of 4.6% during the Fiscal 2014 Quarter compared to 4.4% during the Fiscal 2013 Quarter.

For the Fiscal 2014 Nine Months, net investment income increased $80.1 million, or 15.3%, to $602.9 million from $522.8 million for the Fiscal 2013 Nine Months. The Fiscal 2013 Nine Months investment income was impacted by FGL's decision in the first fiscal quarter of 2013 to be defensive with its investment portfolio, given the interest rate environment at the time, and reduce the credit and interest rate risk exposures in the portfolio, as well as shorten the duration of the portfolio relative to its liabilities. In addition, FGL 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 fiscal quarter of 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. FGL began reinvesting the sales proceeds in September 2013 and FGL continued its reinvestment strategy into the first fiscal quarter of 2014. As a result, FGL saw a substantial increase in earned yield during the first half of fiscal 2014. FGL's reinvestment strategy resulted in a decrease in average cash and short-term investments from $1,757.5 million during the Fiscal 2013 Nine Months to $1,057.0 million during the Fiscal 2014 Nine Months. Furthermore, FGL reinvested the excess cash and short-term investments into higher yielding assets which resulted in an earned yield of 4.6% during the Fiscal 2014 Nine Months compared to 4.2% during the Fiscal 2013 Nine Months.

Average invested assets (on an amortized cost basis) were $17.7 billion and $16.8 billion, and the yield earned on average invested assets was 4.6% and 4.4% (annualized) for the Fiscal 2014 Quarter and the Fiscal 2013 Quarter, respectively, compared to interest credited and option costs of 2.8% and 2.9% (annualized), for each period, respectively.

Average invested assets (on an amortized cost basis) were $17.4 billion and $16.6 billion, and the yield earned on average invested assets was 4.6% and 4.2% (annualized) for the Fiscal 2014 Nine Months and the Fiscal 2013 Nine Months, respectively, compared to interest credited and option costs of 2.9% and 3.0% (annualized), for each period, respectively.

The Insurance Segment's net investment spread is summarized as follows (annualized):

	Fiscal Quarter		Fiscal Nine Months	
	2014	2013	2014	2013
Yield on average invested assets (at amortized cost)	4.6%	4.4%	4.6%	4.2%
Less: Interest credited and option cost	2.8%	2.9%	2.9%	3.0%
Net investment spread	1.8%	1.5%	1.7%	1.2%

The net investment spread for the Fiscal 2014 Quarter and Fiscal 2014 Nine Months was 0.3% higher and 0.5% higher than for the Fiscal 2013 Quarter and Fiscal 2013 Nine Months, respectively due 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 yield earned and net investment income.

Net investment gains. For the Fiscal 2014 Quarter the Insurance Segment had net investment gains of $184.1 million compared to net investment gains of $58.3 million for the Fiscal 2013 Quarter. The period over period increase of $125.8 million is primarily due to a increase in net realized and unrealized gains on futures contracts and call options of $81.6 million primarily resulting from the performance of the indices upon which the call options and futures contracts are based. FGL utilizes a combination of static (call options) and dynamic (long futures contracts) instruments in their hedging strategy. A substantial portion of the call options and futures contracts are based upon the S&P 500 index with the remainder based upon other equity and bond market indices. The S&P 500 index increased 4.7% and 2.4% during the Fiscal 2014 Quarter and the Fiscal 2013 Quarter, respectively (the percentages noted are a fiscal quarter over quarter comparison of the growth of the S&P 500 Index only and do not reflect the change for each option buy date). Included in the net realized and unrealized gains on futures contracts and call options in the Fiscal 2013 Quarter was an unrealized loss of $31.0 million, primarily due to the expiration of in-the-money options during that quarter that were in an unrealized gain position as of March 31, 2013.

Also contributing to the quarter over quarter increase were net investment gains on fixed maturity and equity available-for-sale securities in the Fiscal 2014 Quarter of $77.4 million, compared to net investment gains of $38.5 million for the Fiscal 2013 Quarter. The $38.9 million increase period over period is primarily due to FGL's Tax Planning Strategy adopted during the second fiscal quarter of 2014. The strategy involves repositioning a portion of the investment portfolio to trigger net unrealized built-in gains ("NUBIG") securities which will allow for the utilization of capital loss carry forwards.

For the Fiscal 2014 Nine Months, the Insurance Segment had net investment gains of $366.9 million compared to net investment gains of $411.5 million for the Fiscal 2013 Nine Months. The period over period decrease of $44.6 million is primarily due to $105.9 million of net investment gains on fixed maturity and equity available-for-sale securities in the Fiscal 2014 Nine Months, compared to net investment gains of $285.0 million for the Fiscal 2013 Nine Months. The $179.1 million decrease period over period is primarily due to FGL's portfolio repositioning trading activity during the Fiscal 2013 Nine Months in which FGL sold certain investments during the first quarter of fiscal 2013 that 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 $124.9 million for the Fiscal 2013 Nine Months primarily resulting from the performance of the indices upon which the call options and futures contracts are based. The S&P 500 index increased 16.6% and 11.5% during the Fiscal 2014 Nine Months and the Fiscal 2013 Nine Months, respectively (such percentage changes noted are a fiscal quarter over quarter comparison of the growth of the S&P 500 Index only and do not reflect a change for each option buy date).

The components of the realized and unrealized gains on derivative instruments are as follows (in millions):

	Fiscal Quarter			Fiscal Nine Months		
	2014	2013	Increase / (Decrease)	2014	2013	Increase / (Decrease)
Call options:						
Gain on option expiration	$ 51.9	$ 47.5	$ 4.4	$ 152.0	$ 87.5	$ 64.5
Change in unrealized gain (loss)	39.2	(31.0)	70.2	74.6	26.6	48.0
Futures contracts:						
Gain (loss) on futures contracts expiration	10.7	6.6	4.1	21.2	11.8	9.4
Change in unrealized gain (loss)	(0.2)	(3.1)	2.9	3.7	0.7	3.0
	$ 101.6	$ 20.0	$ 81.6	$ 251.5	$ 126.6	$ 124.9

The average index credits to policyholders were as follows:

	Fiscal Quarter		Fiscal Nine Months	
	2014	2013	2014	2013
S&P 500 Index:				
Point-to-point strategy	4.6%	4.7%	4.8%	5.4%
Monthly average strategy	4.8%	4.1%	5.0%	4.9%
Monthly point-to-point strategy	5.4%	5.7%	6.5%	4.3%
3 Year high water mark	21.3%	20.3%	20.7%	23.7%

For the Fiscal 2014 Quarter and Fiscal 2014 Nine Months, the average credit to contractholders from index credits during the period was 5.1% and 5.6%, respectively compared to 5.1% and 5.0% for the Fiscal 2013 Quarter and Fiscal 2013 Nine Months, respectively. The credits for the Fiscal 2014 Quarter and Fiscal 2014 Nine Months 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 the Fiscal 2013 Quarter and Fiscal 2013 Nine Months compared to the S&P 500 Index growth for issue dates in the Fiscal 2014 Quarter and Fiscal 2014 Nine Months, respectively.

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 FGL to manage the cost of the options purchased to fund the annual index credits.

Insurance and investment product fees and other. Insurance and investment product fees and other consists primarily of the cost of insurance, policy rider fees 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 revenues increased $3.7 million, or 23.0% to $19.8 million for the Fiscal 2014 Quarter from $16.1 million for the Fiscal 2013 Quarter and $10.5 million, or 23.6% to $54.9 million, for the Fiscal 2014 Nine Months from $44.4 million for the Fiscal 2013 Nine Months. These increases are primarily due to the growth in sales of FGL's indexed individual life ("IUL") and FIA products and the associated product fees associated with them over the past year.

Benefits and other changes in policy reserves. For the Fiscal 2014 Quarter, benefits and other changes in policy reserves increased $157.9 million, or 147.3%, to $265.1 million, from $107.2 million for the Fiscal 2013 Quarter principally due to the FIA market value liability which increased $52.0 million during the Fiscal 2014 Quarter compared to a $44.8 million decrease during the Fiscal 2013 Quarter. The FIA market value liability is directly correlated with the change in market value of the derivative assets hedging FGL's FIA policies. Accordingly, the period over period increase of $96.8 million was primarily due to the equity market movements during these respective quarters (see the net investment gain discussion above for details on the change in market value of the Insurance Segment's derivative assets quarter over quarter). Also contributing to the increase in benefits and other changes in policy reserves was the FIA present value of future credits and guarantee liability change, which increased $5.9 million during the Fiscal 2014 Quarter compared to a $73.0 million decrease during the Fiscal 2013 Quarter. The period over period increase of $78.9 million was primarily driven by a the change in risk free rates during the respective quarters. During the Fiscal 2014 Quarter a decrease in risk free rates increased reserves by $22.2 million compared to an increase in risk free rates in the Fiscal 2013 Quarter and corresponding decrease in reserves of $60.5 million.

Partially offsetting the quarter over quarter increases above was a quarter over quarter decrease in immediate annuity policy reserves of $23.7 million primarily due to mortality experience. Upon a death, FGL releases the reserve established for the expected remaining benefits which are based on assumptions for mortality among other things. To the extent the actual deaths in the period are higher than expected, additional reserves will be released.

For the Fiscal 2014 Nine Months, benefits and other changes in policy reserves increased $264.6 million, or 61.3%, to $696.3 million, from $431.7 million for the Fiscal 2013 Nine Months principally 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 change decreased $16.9 million during the Fiscal 2014 Nine Months compared to a $131.7 million decrease during the Fiscal 2013 Nine Months. The period over period increase of $114.8 million was primarily driven by a greater increase in risk free rates during the Fiscal 2013 Nine Months, which reduced reserves by $99.3 million compared to a decrease in rates and corresponding reserve increase of $12.7 million during the Fiscal 2014 Nine Months. Also contributing to the increase in benefits and other changes in policy reserves was the FIA market value liability which increased $84.7 million period over period. As discussed above, this change is primarily due to the market value of the derivative assets hedging FGL's FIA policies (see the net investment gain discussion above for details on the change in market value of FGL's derivative assets period over period). Lastly, index credits, interest credited and bonuses increased by $67.3 million period over period primarily due to increased sales of new FIA and deferred annuity policies during the past year.

Below is a summary of the major components included in benefits and other changes in policy reserves for the Fiscal 2014 and 2013 Quarters, and the Fiscal 2014 and 2013 Nine Months (in millions):

	Fiscal Quarter			Fiscal Nine Months		
	2014	2013	Increase / (Decrease)	2014	2013	Increase / (Decrease)
FIA market value option liability	$ 52.0	$ (44.8)	$ 96.8	$ 102.0	$ 17.3	$ 84.7
FIA present value future credits & guarantee liability change	5.9	(73.0)	78.9	(16.9)	(131.7)	114.8
Index credits, interest credited & bonuses	170.0	160.6	9.4	488.8	421.5	67.3
Annuity Payments	52.2	56.4	(4.2)	159.3	167.7	(8.4)
Other policy benefits and reserve movements	(15.0)	8.0	(23.0)	(36.9)	(43.1)	6.2
Total benefits and other changes in policy reserves	$ 265.1	$ 107.2	$ 157.9	$ 696.3	$ 431.7	$ 264.6

Acquisition, operating and general expenses, net of deferrals. Acquisition, and operating expenses, net of deferrals, increased $1.1 million, or 4.5%, to $25.6 million for the Fiscal 2014 Quarter, from $24.5 million for the Fiscal 2013 Quarter. The quarter over quarter increase was principally due to a $1.2 million change of tax fees due to additional guarantee fund expenses related to Executive Life of NY included in the Fiscal 2013 Quarter which went into formal liquidation during the quarter.

Acquisition, and operating expenses, net of deferrals, increased $14.0 million, or 18.4%, to $89.9 million for the Fiscal 2014 Nine Months, from $75.9 million for the Fiscal 2013 Nine Months. The period over period increases were principally 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 Fidelity & Guaranty Life Holdings, Inc. ("FGH") Plans increased as a result of the appreciation of FGL's share price since the initial public offering.

Amortization of intangibles. For the Fiscal 2014 Quarter, amortization of intangibles decreased $44.5 million, or 68.8%, to $20.2 million from $64.7 million for the Fiscal 2013 Quarter. For the Fiscal 2014 Nine Months, amortization of intangibles decreased $102.8 million, or 63.0%, to $60.3 million from $163.1 million for the Fiscal 2013 Nine Months. Amortization of intangibles is based on historical, current and future expected gross margins (pre-tax operating income before amortization). Accordingly, the period over period decreases were primarily due to lower gross margins on FGL's FIA products during the Fiscal 2014 Quarter and Fiscal 2014 Nine Months, respectively. The decrease in the margins for both periods was primarily due to the increase in the FIA present value of future credits and guarantee liability discussed above. Additionally, the decrease in trading gains on the available-for-sale portfolio, as discussed above, contributed to lower gross margins during the Fiscal 2014 Nine Months.

Energy Segment

Presented below is a table that summarizes the results of operations of our Energy Segment for the Fiscal 2014 Quarter, Fiscal 2013 Quarter, Fiscal 2014 Nine Months and for the Fiscal 2013 Nine Months (representing the period from inception to June 30, 2013) (in millions):

	Fiscal 2014 Quarter	Fiscal 2013 Quarter	Increase / (Decrease)	Fiscal 2014 Nine Months	Fiscal 2013 Nine Months	Increase / (Decrease)
Oil and natural gas revenues	$ 37.6	$ 37.8	$ (0.2)	$ 112.3	$ 54.5	$ 57.8
Oil and natural gas direct operating costs	17.7	18.1	(0.4)	50.9	26.9	24.0
Oil and natural gas operating margin	19.9	19.7	0.2	61.4	27.6	33.8
Acquisition, operating and general expenses, net of deferrals	11.3	14.9	(3.6)	37.6	22.3	15.3
Impairment of oil and natural gas properties	—	—	—	81.0	—	81.0
Operating income (loss) - Energy segment	$ 8.6	$ 4.8	$ 3.8	$ (57.2)	$ 5.3	$ (62.5)

Oil and natural gas production, revenues, and prices. Oil and natural gas revenues for the Fiscal 2014 Quarter decreased by $0.2 million, or 0.5%, as compared with the Fiscal 2013 Quarter primarily due to decreased production resulting from natural production declines, largely offset by an increase in oil and natural gas prices. The Energy segment’s average sales price for the Fiscal 2014 Quarter increased $4.07, or 4.5%, per Bbl of oil, $7.26, or 21.4%, per Bbl of natural gas liquids, and $0.50, or 13.1% per Mcf of natural gas as compared with the Fiscal 2013 Quarter. The Energy segment's average sales price for natural gas during the Fiscal 2014 Quarter was positively impacted by higher demand due to lower than average temperatures during the winter season which resulted in significantly lower storage levels compared to recent historical averages. The production during the Fiscal 2014 Quarter consisted of 5.2 Bcfe from the East Texas/North Louisiana region and 1.4 Bcfe from the Permian Basin compared with 5.8 Bcfe from East Texas/North Louisiana region and 1.6 Bcfe from the Permian Basin for the Fiscal 2013 Quarter. The Energy segment’s developmental activities in the Permian Basin during the quarter included 1 well turned-to-sales for the Fiscal 2014 Quarter and 7 wells turned-to-sales for the Fiscal 2013 Quarter.

Oil and natural gas revenues were $112.3 million for the Fiscal 2014 Nine Months. The Energy segment’s average sales price was $93.62 per Bbl of oil, $44.72 per Bbl of natural gas liquids, and $4.24 per Mcf of natural gas for the Fiscal 2014 Nine Months. The Energy segment's average sales price for natural gas during the Fiscal 2014 Nine Months was positively impacted by higher demand due to lower than average temperatures during the winter season which resulted in significantly lower storage levels compared to recent historical averages. The Energy segment’s developmental activities in the Permian Basin resulted in 7 wells turned-to-sales for the Fiscal 2014 Nine Months. The production during the period consisted of 15.4 Bcfe from the East Texas/North Louisiana region and 4.4 Bcfe from the Permian Basin.

Oil and natural gas revenues were $54.5 million for the period from inception to June 30, 2013. The Energy segment’s average sales price was $89.68 per Bbl of oil, $35.16 per Bbl of natural gas liquids, and $3.70 per Mcf of natural gas for the period from inception to June 30, 2013. The Energy segment’s developmental activities in the Permian Basin resulted in 10 wells-turned-to-sales for the period from inception to June 30, 2013. The production during the period consisted of 8.6 Bcfe from the East Texas/North Louisiana region and 2.3 Bcfe from the Permian Basin.

The average daily production for the Fiscal 2014 Quarter decreased to 73 Mmcfe per day from 82 Mmcfe per day for the Fiscal 2013 Quarter. The average daily production for the Fiscal 2014 Nine Months decreased to 73 Mmcfe per day from 80 Mmcfe per day from inception to June 30, 2013. The decrease is primarily attributable to normal production declines in excess of the production added from the Energy segment's drilling program.

Direct operating costs and expenses. Direct operating costs and expenses consist of oil and natural gas operating costs, gathering and transportation expenses, and production and ad valorem taxes. The Energy segment’s oil and natural gas operating costs for the Fiscal 2014 Quarter decreased by $0.5 million, or 4.4% as compared to the Fiscal 2013 Quarter. The decrease was primarily due to the implementation of numerous cost savings initiatives, including reducing the energy segment's salt-water disposal costs and modifying its chemical treating programs. On a per Mcfe basis, oil and natural gas operating costs increased from $1.53 per Mcfe for the Fiscal 2013 Quarter to $1.65 per Mcfe for the Fiscal 2014 Quarter. Increase on a Mcfe basis was primarily due to lower volumes in relation to fixed operating costs. Oil and natural gas operating costs were $31.3 million, or $1.58 per Mcfe, and

$16.8 million, or $1.55 per Mcfe for the Fiscal 2014 Nine Months and for the period from inception to June 30, 2013, respectively. These costs primarily consisted of labor and overhead costs, chemical treatment programs, salt-water disposal costs, and other various costs associated with the operation of the wells. The decrease for both the Fiscal 2014 Quarter and Fiscal 2014 Nine Months from comparable periods in prior year was due to the implementation of numerous cost savings initiatives, including reducing the Energy segment's salt-water disposal costs and modifying its chemical treating programs.

Gathering and transportation expenses for the Fiscal 2014 Quarter increased by $0.6 million as compared with the Fiscal 2013 Quarter. On a per Mcfe basis, gathering and transportation expenses increased from $0.36 per Mcfe for the Fiscal 2013 Quarter to $0.50 per Mcfe for the Fiscal 2014 Quarter. Gathering and transportation costs were $9.9 million, or $0.50 per Mcfe, and $4.0 million, or $0.37 per Mcfe, for the Fiscal 2014 Nine Months and the period from inception to June 30, 2013, respectively. The Energy segment utilizes pipeline companies to facilitate sales of its East Texas/North Louisiana volumes and reports these transportation costs as a component of gathering and transportation expenses. The increase for both the Fiscal 2014 Quarter and the Fiscal 2014 Nine Months from comparable periods in prior year was primarily due to changes in the gathering systems utilized for a portion of the production in the East Texas/North Louisiana region. The changes to these gathering systems resulted in higher realized prices received from the purchaser included within the Energy segment's revenues as well as higher gathering and transportation costs.

Production and ad valorem taxes for the Fiscal 2014 Quarter decreased by $0.5 million, or 12.5%, as compared with the Fiscal 2013 Quarter. On a per Mcfe basis, production and ad valorem taxes decreased from $0.54 per Mcfe for the Fiscal 2013 Quarter to $0.53 per Mcfe for the Fiscal 2014 Quarter. The decrease was primarily due to lower production volumes and the decrease in the state of Louisiana severance tax rate, which decreased in July 2013 from $0.15 per Mcf to $0.12 per Mcf. For the Fiscal 2014 Nine Months and the period from inception to June 30, 2013, production and ad valorem taxes were $9.7 million, or $0.49 per Mcfe and $6.0 million, or $0.55 per Mcfe, respectively. The reduction in the severance tax rate was primarily due to the decrease in the state of Louisiana severance tax rate. In July 2014, the state of Louisiana increased its tax rate to $0.16 per Mcf.

Acquisition, operating and general expenses, net of deferrals. The Energy segment's general and administrative expense for the Fiscal 2014 Quarter was unchanged compared to Fiscal 2013 Quarter. The Energy segment’s general and administrative costs for the Fiscal 2014 Nine Months and the period from inception to June 30, 2013 was $5.7 million, or $0.29 per Mcfe and $3.3 million, or $0.30 per Mcfe, respectively. These costs primarily consisted of service agreement charges and personnel costs, and were primarily offset by operator overhead reimbursement. Significant components of general and administrative expense for the Fiscal 2014 Nine Months and the period from inception to June 30, 2013 included the following: (i) service agreement charges of $7.3 million and $3.6 million, respectively, related to accounting, legal, information technology, treasury, engineering, and other costs; (ii) employee personnel costs of $4.2 million and $1.8 million, respectively, including salaries, bonuses, insurance and other benefits; and (iii) other miscellaneous expenses of $1.4 million and $1.4 million, respectively, including audit fees, legal expenses, and other office expenses. General and administrative costs are reduced by (i) operator overhead reimbursements allocated to the working interest owners of the Energy segment’s operated oil and natural gas properties of $6.4 million and $3.2 million, respectively; and (ii) capitalized salaries and share-based compensation related to the Energy segment’s oil and natural gas exploration and production activities of $0.8 million and $0.3 million, respectively.

Depletion expense for the Fiscal 2014 Quarter decreased by $3.6 million, or 29.3%, as compared with the Fiscal 2013 Quarter. On a per Mcfe basis, depletion expense decreased from $1.66 per Mcfe for the Fiscal 2013 Quarter to $1.32 per Mcfe for the Fiscal 2014 Quarter. The decrease was primarily due to prior period impairments of the Energy segment's oil and natural gas properties which lowered the depletable base and decreased production. Depletion expense for the Fiscal 2014 Nine Months and the period from inception to June 30, 2013 was $29.4 million, or $1.48 per Mcfe, and $18.0 million, or $1.66 per Mcfe, respectively. The decrease in the Energy segment's depletion rate from prior year was primarily due to impairments of the oil and natural gas properties which lowered the Energy segment's depletable base and decreased production. Depletion expense was calculated using the unit-of-production method for Energy segment's proved oil and gas properties.

Impairment of oil and natural gas properties. For the Fiscal 2014 Quarter and the Fiscal 2013 Quarter, the Energy segment did not record an impairment to its oil and natural gas properties. For the Fiscal 2014 Nine Months, the Energy segment recorded an impairment of $81.0 million to its oil and natural gas properties. The impairment primarily resulted from differences in the oil and natural gas prices utilized in the purchase price allocation at the acquisition date and the prices used in the ceiling test calculation. We previously received an exemption from the

SEC to exclude the acquisition of Compass' unamortized oil and natural gas properties from the ceiling test for a period of one year following the acquisition date and this exemption expired during the interim period ended March 31, 2014. The Energy segment's pricing utilized in the purchase price allocation as of the acquisition date was based on models which incorporate, among other things, market prices based on NYMEX futures. The ceiling test requires companies using the full cost accounting method to price period ending proved reserves using the simple average spot price for the trailing twelve month period, which may not be indicative of actual market values. For the period from inception to June 30, 2013, the Energy segment did not record an impairment to its oil and natural gas properties.

Summary of key financial data

A summary of key financial data for the Fiscal 2014 Quarter and Fiscal 2014 Nine Months, the Fiscal 2013 Quarter and Fiscal 2013 Nine Months (representing the period from inception to June 30, 2013) related to our proportionate 74.4% interest in the results of operations of Compass reported in the Energy segment is presented below:

(dollars in millions, except per unit prices)	**Fiscal 2014 Quarter**	**Fiscal 2013 Quarter**	**Increase / (Decrease)**	**Fiscal 2014 Nine Months**	**Fiscal 2013 Nine Months**	**Increase / (Decrease)**
Production:						
Oil (Mbbls)	103	119	(16)	302	177	125
Natural gas liquids (Mbbls)	125	126	(1)	390	180	210
Natural gas (Mmcf)	5,240	5,953	(713)	15,705	8,726	6,979
Total production (Mmcfe) (1)	6,608	7,423	(815)	19,857	10,868	8,989
Average daily production (Mmcfe)	73	82	(9)	73	80	(7)
Revenues before derivative financial instrument activities:						
Oil	$ 9.8	$ 10.8	$ (1.0)	$ 28.3	$ 15.9	$ 12.4
Natural gas liquids	5.1	4.3	0.8	17.4	6.3	11.1
Natural gas	22.7	22.7	—	66.6	32.3	34.3
Total revenues	$ 37.6	$ 37.8	$ (0.2)	$ 112.3	$ 54.5	$ 57.8
Oil and natural gas derivative financial instruments:						
(Loss) gain on derivative financial instruments	$ (2.2)	$ 9.6	$ (11.8)	$ (12.4)	$ 0.8	$ (13.2)
Average sales price (before cash settlements of derivative financial instruments):						
Oil (per Bbl)	$ 94.85	$ 90.78	$ 4.07	$ 93.62	$ 89.68	$ 3.94
Natural gas liquids (per Bbl)	41.26	34.00	7.26	44.72	35.16	9.56
Natural gas (per Mcf)	4.32	3.82	0.50	4.24	3.70	0.54
Natural gas equivalent (per Mcfe)	5.69	5.09	0.60	5.66	5.01	0.65
Costs and expenses (per Mcfe):						
Oil and natural gas operating costs	$ 1.65	$ 1.53	$ 0.12	$ 1.58	$ 1.55	$ 0.03
Production and ad valorem taxes	0.53	0.54	(0.01)	0.49	0.55	(0.06)
Gathering and transportation	0.50	0.36	0.14	0.50	0.37	0.13
Depletion	1.32	1.66	(0.34)	1.48	1.66	(0.18)
Depreciation and amortization	0.06	0.05	0.01	0.06	0.05	0.01
General and administrative	0.26	0.26	—	0.29	0.30	(0.01)
Interest expense	0.62	0.57	0.05	0.64	0.57	0.07

(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 Quarter			Fiscal Nine Months		
	2014	2013	Increase / (Decrease)	2014	2013	Increase / (Decrease)
Asset Management segment revenues	$ 11.3	$ 7.1	$ 4.2	$ 25.6	$ 20.8	$ 4.8
Asset Management segment operating costs and expenses	8.2	4.7	3.5	22.4	10.6	11.8
Operating income - Asset Management segment	$ 3.1	$ 2.4	$ 0.7	$ 3.2	$ 10.2	$ (7.0)

Asset Management segment revenues and operating income. Revenues for the Fiscal 2014 Quarter increased $4.2 million to $11.3 million from $7.1 million in the Fiscal 2013 Quarter. Operating income for the Fiscal 2014 Quarter increased $0.7 million to $3.1 million, from operating income of $2.4 million earned during the Fiscal 2013 Quarter. The increase in revenues during Fiscal 2014 Quarter is primarily the result of an increase in the asset-based loans originated and serviced by the operations of Salus to $731.0 million at June 30, 2014 from $433.3 million at June 30, 2013, coupled with an increase in asset management fees earned from affiliates by the operations of Five Island, a wholly-owned asset management company. The increase in operating expenses during Fiscal 2014 Quarter is primarily due to an increase in salary and benefit expenses resulting from the addition of employees, and to a lesser extent an increase in expenses due to increased operations.

Revenues for the Fiscal 2014 Nine Months increased $4.8 million to $25.6 million from $20.8 million in the Fiscal 2013 Nine Months. Operating income for the Fiscal 2014 Nine Months decreased $7.0 million to $3.2 million, from operating income of $10.2 million earned during the Fiscal 2013 Nine Months, primarily as a result of the increases in operating expenses discussed below. The increase in revenues during Fiscal 2014 Nine Months is primarily the result of an increase in asset management fees earned from affiliates by the operations of Five Island, offset in part by the non-recurrence of a success fee earned on a loan by Salus in the Fiscal 2013 Nine Months. Operating expenses increased $11.8 million during the Fiscal 2014 Nine Months primarily due to an increase in salary and benefit expenses resulting from the addition of employees, and to a lesser extent an increase in expenses due to increased operations.

Corporate and Other Segment

	Fiscal Quarter			Fiscal Nine Months		
	2014	2013	Increase / (Decrease)	2014	2013	Increase / (Decrease)
Net consumer and other product sales	$ 4.7	$ —	$ 4.7	$ 4.7	$ —	$ 4.7
Cost of consumer products and other goods sold	3.5	—	3.5	3.5	—	3.5
Corporate and Other gross profit	1.2	—	1.2	1.2	—	1.2
Selling, acquisition, operating and general expenses	39.1	17.5	21.6	99.4	68.4	31.0
Operating income - Corporate and Other segment	$ (37.9)	$ (17.5)	$ (20.4)	$ (98.2)	$ (68.4)	$ (29.8)

Net consumer and other product sales. Net consumer and other product sales represents FOH sales of $4.7 million for the period subsequent to the acquisition on May 30, 2014.

Cost of consumer products and other goods sold / ***Corporate and Other gross profit.*** Corporate and Other gross profit of $1.2 million represents FOH sales less consumer products cost of goods sold for the the period subsequent to the acquisition date. The gross profit margin for the same period was 25.5%.

Selling, acquisition, operating and general expenses. Selling, acquisition, operating and general expenses increased $21.6 million to $39.1 million for the Fiscal 2014 Quarter from $17.5 million for the Fiscal 2013 Quarter and $31.0 million to $99.4 million for the Fiscal 2014 Nine Months from $68.4 million for the Fiscal 2013 Nine Months.

The $21.6 million increase in corporate expenses for the Fiscal 2014 Quarter when compared to the Fiscal 2013 Quarter was primarily due to increases in (i) performance-based bonus expense; (ii) estimated legal contingency reserve resulting from the OM Group (UK) Summary Judgment related to financing of reserves referred to as “CARVM” matter; (iii) amortization of unearned stock-based compensation; and (iv) other expenses due to the expansion of our overall operations during the Fiscal 2014 Quarter, including selling, acquisition, operating and general expenses for the operations of FOH subsequent to its acquisition in May 2014.

The $31.0 million increase in corporate expenses for the Fiscal 2014 Nine Months compared to the Fiscal 2013 Nine Months was primarily due to increases in (i) amortization of unearned stock-based compensation; (ii) performance-based bonus expense; (iii) estimated legal contingency reserve resulting from the OM Group (UK) Summary Judgment related to financing of reserves referred to as “CARVM” matter; (iv) payroll costs; and (v) an increase in other expenses due to the expansion of our overall operations during the Fiscal 2014 Nine Months, 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 a decrease in acquisition and integration related charges.

HGI's Compensation Committee has established annual salary, bonus and equity-based compensation arrangements with certain of HGI'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 HGI's net asset value ("Compensation NAV"). Performance-based bonuses paid based on the growth of the Compensation NAV allow management to participate in a portion of HGI's performance. HGI's accrual for these bonus compensation expenses for the Fiscal 2014 Quarter and Fiscal 2014 Nine Months, respectively, as compared to the respective comparable prior fiscal periods, resulted in an increase in the expense recognized of $6.7 million and $8.6 million as compared to the respective prior fiscal periods. This reflects the underlying performance and growth in the Compensation NAV, which has grown approximately 2.6% and 35.2% in the Fiscal 2014 Quarter and Fiscal 2014 Nine Months, respectively.

Non-US GAAP Measures

Adjusted EBITDA - Consumer Products. Spectrum Brands believes 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 earnings before interest, taxes, depreciation and amortization is a metric used by management and frequently used by the financial community. Adjusted EBITDA 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 and is one of the measures used for determining Spectrum Brands’ debt covenant compliance. Adjusted EBITDA excludes certain items that are unusual in nature or not comparable from period to period. 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.

Spectrum Brands' computations of Adjusted EBIT 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. EBITDA and Adjusted EBITDA 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, Spectrum Brands encourages 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.

Our Consumer Products segment's Adjusted EBITDA increased by $13.8 million, or 7.3%, to $202.3 million versus the Fiscal 2013 Quarter primarily due to higher sales of hardware and home improvement products, home and garden control products, and batteries and appliances. Adjusted EBITDA margin represented 17.9% of sales as compared to 17.3% in the Fiscal 2013 Quarter.

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 Quarter		Fiscal Nine Months	
Reconciliation to reported net income (loss) :	2014	2013	2014	2013
Reported net income (loss) - consumer products segment	$ 78.0	$ 36.4	$ 166.4	$ (18.5)
Add back:				
Interest expense	47.3	61.6	151.7	191.8
Income tax expense	20.6	15.1	43.8	54.9
HHI Business inventory fair value adjustment	—	—	—	31.0
Pre-acquisition earnings of HHI Business	—	—	—	30.3
Restructuring and related charges	3.7	13.2	16.0	27.7
Acquisition and integration related charges	2.7	7.7	14.5	40.5
Venezuela devaluation	—	—	—	2.0
Adjusted EBIT - Consumer Products segment	152.3	134.0	392.4	359.7
Depreciation and amortization, net of accelerated depreciation				
Depreciation of properties	19.9	16.4	56.4	42.6
Amortization of intangibles	20.5	20.3	61.2	57.5
Stock-based compensation	9.6	17.8	27.5	32.6
Adjusted EBITDA - Consumer Products segment	$ 202.3	$ 188.5	$ 537.5	$ 492.4

Adjusted Operating Income — Insurance. 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. For the Fiscal 2014 Quarter, Insurance AOI increased $20.9 million to $38.5 million, or 118.8%, from $17.6 million for the Fiscal 2013 Quarter and by $58.3 million to $123.2 million for the Fiscal 2014 Nine Months, or 89.8%, from $64.9 million for the Fiscal 2013 Nine Months.

The increase for the Fiscal 2014 Quarter was primarily due to a $5.7 million favorable mortality experience in the immediate annuity product line and favorable deferred acquisition costs amortization of $4.7 million, after-tax. In addition, included in the Fiscal 2013 Quarter results were $5.0 million of additional reserves in the immediate annuity product line after-tax and $2.7 million of project related expenses.

The increase for the Fiscal 2014 Nine Months was primarily due to a $35.0 million valuation allowance release during the second quarter of fiscal 2014, as well as an increase in net investment income (net of intangible amortization and income taxes) during the Fiscal 2014 Nine Months as discussed above.

The table below shows the adjustments made to the reported net income of the Insurance segment to calculate Insurance AOI (in millions):

	Fiscal Quarter		Fiscal Nine Months	
Reconciliation to reported net income :	2014	2013	2014	2013
Reported net income - Insurance segment:	$ 70.2	$ 53.3	$ 166.5	$ 237.1
Effect of investment gains, net of offsets	(40.7)	(13.3)	(49.3)	(134.0)
Effect of change in FIA embedded derivative discount rate, net of offsets	9.1	(22.4)	5.0	(38.2)
Effect of class action litigation reserves, net of offsets	(0.1)	—	1.0	—
Adjusted operating income - Insurance segment	$ 38.5	$ 17.6	$ 123.2	$ 64.9

Insurance AOI is calculated by adjusting the Insurance Segment's net income to eliminate (i) the impact of net investment gains, excluding gains and losses on derivatives and including net of other-than-temporary impairment losses recognized in operations, (ii) the effect of changes in the rates used to discount the FIA embedded derivative liability and (iii) the impact of certain litigation reserves. All adjustments to Insurance AOI are net of the corresponding value of business acquired ("VOBA"), deferred acquisition costs ("DAC") and income tax impact 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 provide meaningful financial metrics that help investors understand our underlying results and profitability. Our Insurance Segment's non-GAAP measures may not be comparable to similarly titled measures of other organizations because other organizations may not calculate such non-GAAP measures in the same manner as we do.

In the second quarter of 2014, the Insurance AOI definition was revised from a pre-tax basis to an after-tax basis to better reflect the basis on which the performance of the Insurance Segment business is internally assessed. Insurance AOI now includes interest expense and an effective tax rate of 35% is now applied to reconciling items made to net income. All prior periods presented have been re-presented to reflect this new definition. Additionally, during the second quarter of 2014 the definition of Insurance AOI was further revised to exclude the impact of certain litigation reserves, net of the corresponding VOBA, DAC and income tax impact related to these adjustments. Specifically, the expense to establish litigation reserves to settle class action lawsuits. This change has been reflected in the current period calculation and will be applied prospectively. As a result of this change, Insurance AOI as presented in this report may not be comparable with the Insurance AOI definition presented in other reports.

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 an independent 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.

Adjusted EBITDA-Energy. EBITDA represents net income adjusted to exclude interest expense, income taxes and depreciation, depletion and amortization. Adjusted EBITDA-Energy represents EBITDA adjusted to exclude non-recurring other 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. Compass has presented EBITDA and Adjusted EBITDA-Energy because they are a widely used measure by investors, analysts and rating agencies for valuations, peer comparisons and investment recommendations. In addition, these measures are used in covenant calculations required under a revolving credit agreement entered into by Compass (the "Compass Credit Agreement"). Compliance with the liquidity and debt incurrence covenants included in these agreements is considered material to Compass. Compass' computations of EBITDA and Adjusted EBITDA-Energy 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. EBITDA and Adjusted EBITDA-Energy are measures that are not prescribed by generally accepted accounting principles, or GAAP. EBITDA and Adjusted EBITDA-Energy 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, Compass encourages 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.

The table below shows the adjustments made to the reported net loss of the Energy segment to calculate its Adjusted EBITDA-Energy (in millions):

	Fiscal Quarter		Fiscal Nine Months	
Reconciliation to reported net loss:	2014	2013	2014	2013
Reported net income (loss) - Energy segment	$ 2.3	$ 10.3	$ (82.3)	$ (0.1)
Interest expense	4.1	4.2	12.7	6.2
Depreciation, amortization and depletion	9.1	12.7	30.5	18.5
EBITDA - Energy segment	15.5	27.2	(39.1)	24.6
Accretion of discount on asset retirement obligations	0.5	0.4	1.5	0.7
Impairment of oil and natural gas properties	—	—	81.0	—
Loss (gain) on derivative financial instruments	2.2	(9.6)	12.4	(0.8)
Cash settlements on derivative financial instruments	(2.9)	(1.9)	(6.2)	(1.3)
Stock based compensation expense	—	—	0.1	—
Adjusted EBITDA - Energy segment	$ 15.3	$ 16.1	$ 49.7	$ 23.2

Liquidity and Capital Resources

HGI

HGI is a holding company and its liquidity needs are primarily for interest payments on the 7.875% Notes and the 7.75% Notes (approximately $90.2 million per year), professional fees (including advisory services, legal and accounting fees), executive bonuses, salaries and benefits, office rent, pension expense, insurance costs, funding certain requirements of its insurance and other subsidiaries, and certain support services and office space provided by Harbinger Capital Partners LLC to HGI. HGI's current source of liquidity is its cash, cash equivalents and investments, and distributions from our subsidiaries.

During the Fiscal 2014 Nine Months, we received $85.1 million in cash dividends from FGL, Spectrum and Compass ($49.1 million, $26.3 million and $9.7 million, respectively). The dividends received to date include a $43.0 million special dividend paid out of the proceeds from FGL's initial public offering in December 2013 and are before giving effect to interest payments made by HGI on behalf of HGI Energy with respect to the Affiliate Notes (as defined below). During fiscal 2014, we expect to receive approximately $117.0 million of dividends during fiscal 2014 (inclusive of the $85.1 million already received during the Fiscal 2014 Nine Months) or approximately $108.0 million of dividends after giving effect to interest payments made by HGI on behalf of HGI Energy with respect to the Affiliate Notes. We expect such dividends along with our cash on hand to exceed our expected cash requirements and to satisfy our interest obligations, and general administrative expenses.

The ability of HGI'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). In addition, one or more 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, to grow their business, pursue acquisition activities and/or to manage their liquidity needs. Any such issuance may limit such subsidiary's ability to make upstream cash distributions.

HGI's liquidity may also be impacted by the capital needs of HGI's current and future subsidiaries. Such entities may require additional capital to maintain or grow their businesses, or make payments on their indebtedness. Our subsidiaries and/or suspension of upstream cash distributions by HGI's subsidiaries. For example, Front Street, will require additional capital in order to engage in reinsurance transactions, and may require additional capital to meet regulatory capital requirements. HGI, FGL and Front Street have also committed to provide capital and financing to HGI's Asset Management segment.

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 June 30, 2014, HGI's corporate cash, cash equivalents and investments were $417.1 million.

Based on current levels of operations, HGI does not have any significant capital expenditure commitments and management believes that its consolidated cash, cash equivalents and investments on hand will be adequate to fund its operational and capital requirements for at least the next twelve months. Depending on a variety of factors, including general state of capital markets, operating needs or acquisition size and terms, HGI and its subsidiaries may 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 HGI. We expect to service any such new additional debt through raising dividends received from our subsidiaries. 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.

Spectrum Brands

Spectrum Brands expects to fund its cash requirements, including capital expenditures, dividend, interest and principal payments due during the remainder of fiscal 2014 through a combination of cash on hand ($85.1 million at June 30, 2014) and cash flows from operations and available borrowings under its asset based lending revolving credit facility (the “ABL Facility”). Spectrum Brands expects its capital expenditures for fiscal 2014 will be approximately $70.0 million to $75.0 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 ABL Facility, will be available in an amount sufficient to satisfy its debt maturities or to fund its other liquidity needs.

Subsequent to October 1, 2011, Spectrum Brands is not treating current foreign earnings as permanently reinvested, except for jurisdictions where repatriation is either precluded or restricted by law. At June 30, 2014, there are no significant foreign cash balances available for repatriation. During the fiscal 2014, Spectrum Brands expects to generate between $75.0 million and $100.0 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. Dividends from its subsidiaries are the principal sources of cash to pay dividends to HGI and to meet its holding company obligations. Other principal sources of cash include sales of 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 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. Given recent economic events that have affected the insurance industry, both 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 June 30, 2014, each of FGL’s insurance subsidiaries has exceeded the minimum risk based capital requirements.

Financial Condition

As of June 30, 2014 and September 30, 2013, the Company’s investment portfolio was approximately $18.8 billion and $16.5 billion, respectively, and was divided among the following asset classes (in millions):

	June 30, 2014		September 30, 2013	
Asset Class	**Fair Value**	**Percent**	**Fair Value**	**Percent**
Asset-backed securities	$ 1,737.7	9.3%	$ 1,523.1	9.3%
Commercial mortgage-backed securities	610.2	3.3%	454.4	2.8%
Corporates	10,297.8	54.9%	9,418.3	57.2%
Equities (a)	760.7	4.1%	352.5	2.1%
Hybrids	481.6	2.6%	428.8	2.6%
Municipals	1,255.7	6.7%	1,007.0	6.1%
Agency residential mortgage-backed securities	99.5	0.5%	98.6	0.6%
Non-agency residential mortgage-backed securities	1,874.1	9.9%	1,368.0	8.3%
U.S. Government	410.5	2.2%	1,001.8	6.1%
Derivatives	324.7	1.7%	221.8	1.3%
Asset-based loans	724.3	3.9%	560.4	3.4%
Other (primarily policy loans and other invested assets)	174.3	0.9%	31.2	0.2%
Total investments	$ 18,751.1	100.0%	$ 16,465.9	100.0%

(a) Includes investment grade non-redeemable preferred stocks ($574.6 million and $226.3 million, respectively) and Federal Home Loan Bank of Atlanta common stock ($38.8 million and $44.6 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.

As of June 30, 2014 and September 30, 2013, FGL’s fixed maturity available-for-sale portfolio was approximately $16.8 billion and $15.3 billion, respectively. The increase in B and below investments from September 30, 2013 to June 30, 2014 was primarily due to the acquisition of certain non-agency residential mortgage-backed securities (“RMBS”), which carry a NAIC 1 designation.

The following table summarizes the credit quality, by NRSRO rating, of FGL’s fixed income portfolio (in millions):

	June 30, 2014		September 30, 2013	
Rating	**Fair Value**	**Percent**	**Fair Value**	**Percent**
AAA	$ 1,595.3	9.5%	$ 1,737.9	11.4%
AA	1,983.8	11.8%	2,423.1	15.8%
A	3,864.3	23.1%	3,791.3	24.8%
BBB	6,792.6	40.5%	5,499.0	35.9%
BB (a)	623.2	3.7%	442.2	2.9%
B and below (b)	1,907.9	11.4%	1,406.5	9.2%
Total	$ 16,767.1	100.0%	$ 15,300.0	100.0%

(a) Includes $48.4 million and $31.4 million at June 30, 2014 and September 30, 2013, respectively, of non-agency RMBS that carry a NAIC 1 designation.
(b) Includes $1,571.3 million and $1,096.3 million at June 30, 2014 and September 30, 2013, respectively, of non-agency RMBS that carry a NAIC 1 designation.

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. This is primarily due to credit and change of intent impairments recorded by FGL which reduced the amortized cost on these securities to a level resulting in no expected loss in all scenarios, which corresponds to a NAIC 1 designation. The revised methodologies reduce regulatory reliance on rating agencies and allow for greater regulatory input into the assumptions 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 tables below present FGL's fixed maturity securities by NAIC designation as of June 30, 2014 and September 30, 2013 (in millions):

	June 30, 2014			September 30, 2013		
NAIC Designation	Amortized Cost	Fair Value	Percent of Total Fair Value	Amortized Cost	Fair Value	Percent of Total Fair Value
1	$ 9,127.4	$ 9,614.6	57.3%	$ 9,157.0	$ 9,367.6	61.2%
2	5,986.6	6,319.0	37.7%	5,352.6	5,369.7	35.1%
3	454.4	484.4	2.9%	379.5	389.4	2.6%
4	265.9	270.3	1.6%	132.7	133.0	0.9%
5	80.0	78.8	0.5%	34.4	34.3	0.2%
6	—	—	—%	5.9	6.0	—%
	$ 15,914.3	$ 16,767.1	100.0%	$ 15,062.1	$ 15,300.0	100.0%

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.

In all cases, 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. FGL believes incremental purchases of non-agency RMBS securities bring its asset allocation back more in line with typical life insurance company's structured exposure.

The fair value of FGL's investments in subprime and Alt-A RMBS securities was $529.5 million and $614.3 million as of June 30, 2014, respectively, and $360.7 million and $394.9 million as of September 30, 2013, respectively. FGL continues to focus on NAIC 1 and 2 rated investments and has reduced its exposure to NAIC 4 or lower rated investments in subprime and Alt-A RMBS securities, since September 30, 2013. The following tables summarize FGL's exposure to subprime and Alt-A RMBS by credit quality using NAIC designations, NRSRO ratings and vintage year as of June 30, 2014 and September 30, 2013:

June 30, 2014						September 30, 2013					
NAIC Designation		NRSRO		Percent of Total Fair Value		NAIC Designation		NRSRO		Percent of Total Fair Value	
1	97.4%	AAA	6.3%	2008	0.5%	1	92.5%	AAA	4.8%	2007	21.8%
2	1.6%	AA	1.4%	2007	17.2%	2	6.0%	AA	2.3%	2006	23.9%
3	0.8%	A	6.6%	2006	33.3%	3	0.7%	A	8.7%	2005 and prior	54.3%
4	0.2%	BBB	3.1%	2005 and prior	49.0%	4	0.5%	BBB	3.9%		100.0%
5	—%	BB and below	82.6%		100.0%	5	0.3%	BB and below	80.3%		
6	—%		100.0%			6	—%		100.0%		
	100.0%						100.0%				

Asset-backed securities exposure

As of June 30, 2014, FGL's asset-backed securities ("ABS") exposure was largely composed of NAIC 1 rated tranches of CLOs, which comprised 92.3% 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.

The following tables summarize FGL's ABS exposure as of June 30, 2014 and September 30, 2013 (in millions):

	June 30, 2014		September 30, 2013	
Asset Class	Fair Value	Percent	Fair Value	Percent
Collateralized Loan Obligations	$ 1,604.0	92.3%	$ 1,328.0	87.2%
Other	109.5	6.3%	107.3	7.0%
Car Loans	16.5	0.9%	11.7	0.8%
Home Equity	2.6	0.2%	68.1	4.5%
Utility	5.1	0.3%	8.0	0.5%
Total asset-backed securities	$ 1,737.7	100.0%	$ 1,523.1	100.0%

The non-CLO exposure as of June 30, 2014 represents 7.7% of total ABS assets, or 0.7% of total invested assets. As of June 30, 2014, the CLO and non-CLO positions were trading at a net unrealized gain position of $4.9 million and $1.7 million, respectively.

The non-CLO exposure as of September 30, 2013 represented 12.8% of total ABS assets, or 1.2%, of total invested assets. As of September 30, 2013, the CLO and non-CLO positions were trading at a net unrealized gain (loss) position of $18.4 million and $(1.0) million, respectively.

Unrealized Losses

The amortized cost and fair value of the fixed maturity securities and the equity securities held as available-for-sale that were in an unrealized loss position as of June 30, 2014 and September 30, 2013 were as follows (in millions, except for number of securities):

	June 30, 2014				September 30, 2013			
	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	4	$ 83.0	$ (1.3)	$ 81.7	18	$ 758.9	$ (4.0)	$ 754.9
United States Government sponsored agencies	14	6.2	—	6.2	17	10.1	(0.2)	9.9
United States municipalities, states and territories	42	236.7	(7.2)	229.5	71	518.5	(40.8)	477.7
Corporate securities:								
Finance, insurance and real estate	63	731.6	(18.9)	712.7	170	1,867.9	(84.2)	1,783.7
Manufacturing, construction and mining	27	227.8	(6.9)	220.9	48	537.1	(36.0)	501.1
Utilities and related sectors	37	239.3	(3.9)	235.4	73	546.8	(19.2)	527.6
Wholesale/retail trade	21	90.8	(1.7)	89.1	45	362.9	(13.6)	349.3
Services, media and other	25	202.4	(5.2)	197.2	50	513.7	(32.1)	481.6
Hybrid securities	2	12.9	(0.2)	12.7	6	55.3	(3.3)	52.0
Non-agency residential mortgage-backed securities	67	324.7	(7.8)	316.9	85	408.5	(13.4)	395.1
Commercial mortgage-backed securities	11	54.1	(1.1)	53.0	10	33.0	(1.6)	31.4
Asset-backed securities	94	769.7	(9.5)	760.2	56	416.0	(5.2)	410.8
Equity securities	18	131.5	(4.9)	126.6	17	161.1	(10.3)	150.8
	425	$ 3,110.7	$ (68.6)	$ 3,042.1	666	$ 6,189.8	$ (263.9)	$ 5,925.9

The gross unrealized loss position on the portfolio as of June 30, 2014, was $68.6 million, a decrease of $195.3 million from $263.9 million as of September 30, 2013. The decrease was primarily due to investment grade credit spreads narrowing during this time period while US Treasury yields remained largely unchanged. The corporate portfolio experienced a decrease of $148.5 million in the unrealized loss position from $185.1 million to $36.6 million due to improved pricing on most of the securities held in the portfolio. Also, strengthening conditions in the municipal bond market led to an improvement in the unrealized loss position for those municipal securities held in the portfolio; this segment demonstrated a narrowing of its unrealized loss position from $40.8 million to $7.2 million.

FGL's municipal bond exposure is a combination of general obligation bonds (fair value of $358.9 million and an amortized cost of $330.5 million) and special revenue bonds (fair value of $896.8 million and amortized cost of $820.5 million). Across all municipal bonds, the largest issuer represented 8.1% of the category, and the largest single municipal bond issuer represents less than 0.6% of the entire portfolio and is rated NAIC 1. FGL's focus within municipal bonds is on NAIC 1 rated instruments, and 98.0% of the municipal bond exposure is rated NAIC 1.

At June 30, 2014, finance and finance related corporates remain the largest dollar component of the $68.6 million unrealized loss position, although this segment now represents 27.6% of the total unrealized loss versus 31.9% at September 30, 2013. Most of the other corporate segments showed similar declines in their unrealized loss position as spreads narrowed.

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 June 30, 2014 and September 30, 2013, were as follows (in millions, except for number of securities):

	June 30, 2014				September 30, 2013			
	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	—	$ —	$ —	$ —	9	$ 78.3	$ 60.9	$ (17.4)
Twelve months or greater		—	—	—	1	0.6	—	(0.6)
Total investment grade	—	—	—	—	10	78.9	60.9	(18.0)
Below investment grade:								
Less than six months	1	0.1	0.1	—	1	—	—	—
Six months or more and less than twelve months	2	0.3	0.1	(0.2)	1	—	—	—
Twelve months or greater	3	0.9	—	(0.9)	2	0.4	—	(0.4)
Total below investment grade	6	1.3	0.2	(1.1)	4	0.4	—	(0.4)
Total	6	$ 1.3	$ 0.2	$ (1.1)	14	$ 79.3	$ 60.9	$ (18.4)

Other-Than-Temporary Impairments and Watch List

FGL has a policy and process in place to identify securities in its investment portfolio each quarter for which it should recognize impairments.

At each balance sheet date, FGL identifies invested assets which have characteristics that create uncertainty as to FGL's future assessment of an other-than-temporary impairment (i.e. significant unrealized losses compared to amortized cost and industry trends). As part of this assessment, FGL reviews not only a change in current price relative to the assets' amortized cost but the issuer's current credit rating and the probability of full recovery of principal based upon the issuer's financial strength. Specifically for corporate issues, FGL evaluates the financial stability and quality of asset coverage for the securities relative to the term to maturity for the issues it owns. On a quarterly basis, FGL reviews structured securities for changes in default rates, loss severities and expected cash flows for the purpose of assessing potential other-than-temporary impairments and related credit losses to be recognized in operations. A security which is believed to have a 20% or greater change in market price relative to its amortized cost and a possibility of a loss of principal will be included on a list which is referred to as FGL's watch list. At June 30, 2014 and September 30, 2013, FGL's watch list included only six and fourteen securities, respectively, in an unrealized loss position with an amortized cost of $1.3 million and $79.3 million, unrealized losses of $1.1 million and $18.4 million, and a fair value of $0.2 million and $60.9 million, respectively. FGL's analysis of these securities, which included cash flow testing results, demonstrated the June 30, 2014 and September 30, 2013 carrying values were fully recoverable.

There were eight and six structured securities on the watch list to which FGL had potential credit exposure as of June 30, 2014 and September 30, 2013, respectively. FGL's analysis of these structured securities, which included cash flow testing results, demonstrated the June 30, 2014 and September 30, 2013 carrying values were fully recoverable.

Exposure to European Sovereign Debt

FGL's investment portfolio had no direct exposure to European sovereign debt as of June 30, 2014 or September 30, 2013.

Available-For-Sale Securities

For additional information regarding FGL's available-for-sale securities, including the amortized cost, gross unrealized gains (losses), and fair value of available-for-sale securities as well as the amortized cost and fair value of fixed maturity available-for-sale securities by contractual maturities as of June 30, 2014, refer to Note 4, Investments, to our Condensed Consolidated Financial Statements.

Net Investment Income and Net investment gains

For discussion regarding FGL's net investment income and net investment gains refer to Note 4, Investments, to our Condensed Consolidated Financial Statements.

Concentrations of Financial Instruments

For detail regarding FGL's concentration of financial instruments refer to Note 4, Investments, to our Condensed Consolidated Financial Statements.

Derivatives

FGL is exposed to credit loss in the event of nonperformance by its counterparties on call options. FGL attempts to reduce this credit risk by purchasing such options from large, well-established financial institutions.

FGL holds cash and cash equivalents received from counterparties for call option collateral, as well as U.S. Government securities pledged as call option collateral, if FGL's counterparty's net exposures exceed pre-determined thresholds. See Note 5, Derivative Financial Instruments, to our Condensed Consolidated Financial Statements for additional information regarding FGL's derivatives and its exposure to credit loss on call options.

HGI Energy

Compass conducts all its operations through operating subsidiaries. Dividends from its subsidiaries are the principal sources of cash to meet Compass' obligations, including interest payments under the Compass Credit Agreement, and to pay dividends to HGI Energy, HGI's wholly-owned subsidiary that directly holds HGI's interest in Compass. Other potential sources of cash include borrowings under the Compass Credit Agreement, sales of assets and issuance of debt and/or equity in the future.

The borrowing base under the Compass Credit Agreement is redetermined semi-annually, with Compass and the lenders having the right to request interim unscheduled redeterminations in certain circumstances. If redeterminations in future periods result in significant reductions of the borrowing base, this would adversely impact Compass' liquidity and Compass may have to seek alternative sources of capital which may not be available on favorable terms, or at all. Accordingly, Compass monitors its capital budget and may implement further initiatives to provide additional liquidity. These initiatives may include suspending distributions to partners in order to focus on reducing outstanding borrowings.

As of June 30, 2014, HGI Energy's consolidated debt was $250.6 million which consisted of its proportionate share of the Compass Credit Agreement. The total borrowings under the Compass Credit Agreement were $337.0 million and the borrowing base was $400.0 million. The agreement contains certain restrictions that require that Compass maintain certain financial covenants. As of June 30, 2014, Compass was in compliance with each of the financial covenants under the Compass Credit Agreement. None of HGI, HGI Energy or EXCO are guarantors, or otherwise provide credit support for, the debt under the Compass Credit Agreement.

In addition to its proportionate share of the borrowings under the Compass Credit Agreement, HGI Energy has indebtedness of an aggregate of $100.0 million under notes issued by HGI Energy to FGL and FSR, which are affiliated entities (the "Affiliate Notes"). Interest on the Affiliate Notes has historically been funded by HGI and, to date, HGI has funded $9.0 million in fiscal 2014. HGI Energy is in compliance with covenants under the Affiliate Notes. Such covenants include limitations to restricted payments, including dividends to the holding company, incurrence of indebtedness and issuance of preferred stock, asset sales, transactions with affiliates, creation of liens, organizational existence, limits on mergers and consolidation and limits on sale and leaseback transactions.

The following table presents HGI’s proportionate interest and Compass’ liquidity and financial position as of June 30, 2014:

(in millions)	HGI’s Proportionate Interest June 30, 2014	Compass June 30, 2014
Borrowings under the Compass Credit Agreement	$ 250.6	$ 337.0
Less: Cash	22.3	30.0
Net debt	$ 228.3	$ 307.0
Borrowing base	$ 297.5	$ 400.0
Unused borrowing base (1)	46.5	62.5
Unused borrowing base plus cash (1)	68.8	92.5

(1) Net of $0.4 million and $0.5 million in letters of credit for HGI's proportionate interest and Compass, respectively as of June 30, 2014.

Capital Expenditures

Compass' capital expenditure program for the fiscal year ending September 30, 2014 is primarily focused on developmental activities in the Permian basin in West Texas and recompletion projects in North Louisiana and the Permian basin. Compass' program targets high probability of success projects that provide acceptable rates of return in the current commodity price environment.

The Fiscal 2014 Nine Months capital expenditures for Compass were $15.1 million. Compass utilized one drilling rig in its Permian area primarily targeting the Canyon Sand formation. During the Fiscal 2014 Nine Months, Compass spud 10 and completed 7 wells. Compass' capital program also included recompletion projects primarily targeting the Wolfcamp formation in the Permian Basin and the Hosston formation in east Texas/North Louisiana.

The following table presents Compass’ capital expenditures including our proportionate interest for the Fiscal 2014 Nine Months:

(in millions)	Nine Months Ended June 30, 2014
Capital expenditures:	
Development capital	$ 12.2
Gas gathering and water pipelines	0.1
Lease acquisitions and seismic	0.2
Corporate and other	2.6
Total	$ 15.1
HGI’s Proportionate 74.4% Share	$ 11.2

Derivative financial instruments

Compass uses oil and natural gas derivatives and financial risk management instruments to manage its exposure to commodity prices. Compass does not designate these instruments as hedging instruments for financial accounting purposes and, as a result, Compass recognizes the change in the respective instruments' fair value in earnings.

The impacts of realized and unrealized changes in the fair value of derivative financial instruments resulted in net losses of $2.2 million and $12.4 million for the Fiscal 2014 Quarter and the Fiscal 2014 Nine Months, respectively. The impacts of realized and unrealized changes in the fair value of derivative financial instruments resulted in net gains of $9.6 million and $0.8 million for the Fiscal 2013 Quarter and the period from inception to June 30, 2014, respectively. The net losses during the Fiscal 2014 Quarter and Fiscal 2014 Nine Months as compared to the respective periods in prior year were the result of increased oil and natural gas prices. Based on the nature of Compass' derivative contracts, increases in the related commodity price typically result in a decrease to the value of Compass' derivatives contracts. The significant fluctuations demonstrate the high volatility in oil and natural gas prices between each of the periods. The ultimate settlement amount of the unrealized portion of the derivative financial instruments is dependent on future commodity prices.

Compass' production is generally sold at prevailing market prices. However, Compass periodically enters into oil and natural gas derivative contracts for a portion of its production when market conditions are deemed favorable and oil and natural gas prices exceed Compass' minimum internal price targets.

Compass' objective in entering into oil and natural gas derivative contracts is to mitigate the impact of price fluctuations and achieve a more predictable cash flow associated with Compass' operations. These transactions limit Compass' exposure to declines in prices, but also limit the benefits Compass would realize if commodity prices increase.

Compass' total cash settlements for the Fiscal 2014 Quarter and the Fiscal 2013 Quarter were net payments of $2.9 million and $1.9 million, respectively, which decreased its realized price by $0.43 and $0.26 per Mcfe, respectively.

Compass' total cash settlements for the Fiscal 2014 Nine Months and the period from inception to June 30, 2013 were net cash payments of $6.2 million and $1.3 million, respectively which decreased Compass' realized price by $0.31 and $0.12 per Mcfe, respectively.

The following table presents Compass' natural gas equivalent prices, before and after the impact of the cash settlement of its derivative financial instruments.

	Fiscal Quarter		Fiscal Nine Months	
Average realized pricing:	**2014**	**2013**	**2014**	**2013**
Natural gas equivalent per Mcfe	$ 5.69	$ 5.09	$ 5.65	$ 5.01
Cash settlements on derivative financial instruments, per Mcfe	(0.43)	(0.26)	(0.31)	(0.12)
Net price per Mcfe, including derivative financial instruments	$ 5.26	$ 4.83	$ 5.34	$ 4.89

As of June 30, 2014, Compass had derivative financial instruments in place for the volumes and prices shown below (based on calendar year periods):

	NYMEX gas volume - Mmmbtu	Weighted average contract price per Mmbtu	NYMEX oil volume - Mbbls	Weighted average contract price per Bbls
Swaps:				
Remainder of 2014	8,211.0	$ 4.15	137.0	$ 91.87
2015	—	—	186.0	94.98

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

Discussion of Consolidated Cash Flows

Summary of Consolidated Cash Flows

Presented below is a table that summarizes the cash provided or used in our activities and the amount of the respective increases or decreases in cash provided or used from those activities between the fiscal periods (in millions):

	Fiscal Nine Months		
Cash provided by (used in):	**2014**	**2013**	**Increase / (Decrease)**
Operating activities	$ 164.4	$ 94.0	$ 70.4
Investing activities	(1,363.1)	(2,200.0)	836.9
Financing activities	754.9	1,884.0	(1,129.1)
Effect of exchange rate changes on cash and cash equivalents	—	(5.0)	5.0
Net decrease in cash and cash equivalents	$ (443.8)	$ (227.0)	$ (216.8)

Operating Activities

Cash provided by operating activities totaled $164.4 million for the Fiscal 2014 Nine Months as compared to cash provided of $94.0 million for the Fiscal 2013 Nine Months. The $70.4 million increase in cash provided was the result of (i) a $48.5 million increase in cash provided by the Insurance segment; (ii) a $24.7 million decrease in cash used; and (iii) a $14.0 million increase in cash provided by the full period effect of our fiscal 2013 year acquisition, Compass, in the Energy segment; offset by (i) a $3.8 million increase in cash used by the Asset Management segment; and (ii) a $13.0 million increase in cash used by the Corporate and Other segment.

The $48.5 million increase in cash provided by our Insurance segment was principally due to (i) an increase in cash collateral posted by FGL's derivative counterparties of $80.1 million; (ii) a decrease in benefits payments of $19.8 million during the Fiscal 2014 Nine Months; and (iii) a decrease in cash used during the Fiscal 2013 Nine Months of $39.0 million due to timing differences between cash disbursements and settlements, partially offset by (i) an increase in policy acquisition costs of $63.3 million due to higher product sales; (ii) an increase in cash interest payments of $19.1 million during the Fiscal 2014 Nine Months; and (iii) cash used in operations by our reinsurance subsidiary, Front Street Cayman.

The $24.7 million decrease in cash used by operating activities in the Consumer Products segment was primarily due to (i) higher cash generated from earnings of $78.0 million, (ii) lower cash payments for interest of $35.0 million; and (iii) lower cash acquisition, integration and restructuring and related costs of $18.0 million. These increases in cash provided from operating activities were offset by (i) cash used for working capital and other items of $80.0 million driven by decreases in accounts payable and increase in inventory, partially offset by decreases in accounts receivable and other working capital accounts; and (ii) higher cash payments for income taxes of $24.0 million.

The $13.0 million increase in cash used by the Corporate and Other segment was mainly due to an increase in cash interest payments and cash bonuses paid during the Fiscal 2014 Nine Months, offset in part by lower transaction and acquisition related expenditures.

Investing Activities

Cash used in investing activities was $1.4 billion for the Fiscal 2014 Nine Months, as compared to cash used of $2.2 billion for the Fiscal 2013 Nine Months. The $836.9 million decrease in cash used by investing activities was due to (i) a decrease in net cash used in acquisitions of $2.0 billion; and (ii) a decrease in cash used of $149.8 million, net, to originate asset-based loans in the Fiscal 2014 Nine Months; offset by a $1.3 billion increase in cash used for purchases of fixed maturity securities and other investments, net of sales, maturities and repayments, principally by our Insurance segment.

Financing Activities

Cash provided by financing activities was $754.9 million for the Fiscal 2014 Nine Months compared to cash provided of $1.9 billion for the Fiscal 2013 Nine Months. The $1.1 billion decrease in cash provided by financing activities was primarily related to (i) a $2.2 billion decrease in cash provided from the proceeds of issuances of debt; (ii) a $258.2 million decrease in cash provided from revolving credit facilities; (iii) $12.1 million used for share repurchase; and (iv) a $9.7 million increase in cash used on tax withholding payments for vested restricted stock awards; offset by (i) an increase in cash provided of $663.4 million from the issuance of, net of redemptions and benefit payments on, investment contracts including annuity and universal life insurance contracts by FGL; (ii) the decreased use of cash of $386.6 million, net, for repayment of debt; (iii) $172.6 million of cash provided from the initial public offering of FGL's common stock, net of issuance costs; (iv) a $68.0 million decrease in cash used for debt issuance costs; and (v) a $65.6 million decrease in cash used to purchase Spectrum Brands' common stock by HGI.

Debt Financing Activities

HGI

In January 2014, the Company issued $200.0 million aggregate principal amount of 7.75% senior unsecured notes due 2022. The 7.75% Notes were priced at 100% of par plus accrued interest from January 21, 2014. Interest on the 7.75% Notes is payable semi-annually, in January and July. In connection with the 7.75% Note offering the Company recorded $5.6 million of fees during the Fiscal 2014 Nine Months.

In May 2014, HGI exchanged a portion of its outstanding 7.875% Senior Secured Notes due 2019 (the "Senior Secured Notes") for $350.0 million aggregate principal amount of new 7.750% Senior Notes due 2022 (the "Additional 7.75% Notes"). On May 30, 2014, participating holders received $1,091.71 principal amount of Additional 7.75% Notes for each $1,000 principal amount of Senior Secured Notes. As part of the exchange the Company also received modifications to the indentures governing the Senior Secured Notes, increasing the Company's ability to make certain restricted payments, such as repurchases of the Company's common stock. Following settlement, HGI has $604.4 million in aggregate principal amount of the Senior Secured Notes outstanding and $550.0 million in aggregate principal amount of 7.75% Notes due 2022 outstanding.

Spectrum Brands

At June 30, 2014, the aggregate amount of principal outstanding under Spectrum Brands' debt instruments was as follows: (i) $1,695.4 million under a senior secured term loan, with $818.1 million maturing on September 4, 2017 ("Tranche A"), $512.4 million maturing September 4, 2019 ("Tranche C"), and $59.4 million maturing December 17, 2019 ("CAD Term Loan") and $305.5 million maturing on September 4, 2019 ("Euro Term Loan") (together, the "Term Loan"); (ii) $520.0 million under the 6.375% unsecured notes, maturing November 15, 2020 (the "6.375% Notes"); (iii) $570.0 million under the 6.625% unsecured notes, maturing November 15, 2022 (the "6.625% Notes"); (iv) $300.0 million aggregate principal under the 6.75% unsecured notes, maturing March 15, 2020 (the "6.75% Notes"); and (v) $110.0 million under the ABL Facility, expiring May 24, 2017 (together with the Term Loan, the 6.375% Notes, the 6.625% Notes, and the 6.75% Notes, the "Senior Credit Facilities").

At June 30, 2014, Spectrum Brands was in compliance with all covenants under the Senior Credit Facilities, the indenture governing the 6.375% Notes and the 6.625% Notes, the indenture governing the 6.75% Notes and the credit agreement governing the ABL Facility (the "ABL Credit Agreement").

Interest Payments and Fees

In addition to principal payments on the Senior Credit Facilities, Spectrum Brands has annual interest payment obligations of approximately $151.2 million in the aggregate on their senior secured and unsecured debt. This includes $33.2 million in the aggregate under the 6.375% Notes, $37.8 million in the aggregate under the 6.625% Notes, and approximately $20.3 million in the aggregate under the 6.75% Notes. Based on principal amounts currently outstanding under these facilities, and using market interest rates and foreign exchange rates in effect at June 30, 2014, this also includes interest under the Term Loan and the ABL Facility of approximately $57.7 million and $2.2 million, respectively. Interest on the 6.375% Notes, 6.625% Notes and the 6.75% Notes is payable semi-annually in arrears and interest under the Term Loan and the ABL Facility is payable on various interest payment dates as provided in the Senior Credit Agreement and the ABL Credit Agreement. Spectrum Brands is required to pay certain fees in connection with the Senior Credit Facilities. Such fees include a quarterly commitment fee of up to 0.375% on the unused portion of the ABL Revolving Credit Facility and certain additional fees with respect to the letter of credit sub-facility under the ABL Revolving Credit Facility.

Compass

At June 30, 2014, our proportion of the aggregate amount outstanding under the Compass Credit Agreement was $250.6 million. See the discussion above, and in Note 8, Debt, to our Condensed Consolidated Financial Statements, for additional information regarding Compass' debt activity during Fiscal 2014. The agreement contains certain restrictions that require that Compass maintain certain financial covenants. As of June 30, 2014, Compass was in compliance with each of the financial covenants under the Compass Credit Agreement. None of HGI, HGI Energy or EXCO are guarantors or otherwise responsible for the payment of indebtedness under the Compass Credit Agreement.

Equity Financing Activities

HGI

On May 13, 2011 and August 5, 2011, we issued 280 thousand shares of Series A preferred stock and 120 thousand shares of Series A-2 preferred stock, respectively, in private placements for total gross proceeds of $400.0 million.

During March 2014 we received, and duly executed, requests to convert a total of 19 thousand shares of Series A-2 preferred stock, resulting in the issuance of 2.9 million shares of the Company’s common stock.

In May 2014, HGI exercised its option to convert its issued and outstanding shares of Series A preferred stock and Series A-2 preferred stock into common stock of the Company, par value $0.01. Upon the conversion, holders of the Series A Preferred stock received approximately 160.95 shares of common stock per Series A preferred share converted and holders of Series A-2 preferred stock received approximately 148.11 shares of common stock per Series A-2 preferred share converted.

During the Fiscal 2014 Nine Months, we granted shares and restricted stock awards representing approximately 3.3 million shares to our employees, our directors, and our consultants. All vesting dates of grants made to our employees are subject to the recipient’s continued employment with us, except as otherwise permitted by our Board of Directors, or in certain cases if the employee is terminated without cause or resigns for good reason. The total market value of the restricted shares on the date of grant was approximately $39.8 million which represented unearned restricted stock compensation. Unearned compensation is amortized to expense over the appropriate vesting period.

FGL

In December 2013, FGL, a then wholly-owned subsidiary of HGI, announced an initial public offering of 9,750 thousand shares of common stock at a price to the public of $17 per share. The shares began trading on the New York Stock Exchange on December 13, 2013 under the ticker symbol "FGL". FGL also granted the underwriters an option to purchase an additional 1,463 thousand shares of common stock that was subsequently exercised. HGI was not a selling shareholder in the offering.

Contractual Obligations

At June 30, 2014, there have been no material changes to the contractual obligations as set forth in our Form 10-K, except for our issuance of $200.0 million aggregate principal amount of 7.75% Notes and our exchange of $320.6 million of our outstanding Senior Secured Notes for $350.0 million aggregate principal amount of Additional 7.75% Notes. See Note 8, Debt, to our Condensed Consolidated Financial Statements for additional information.

Off-Balance Sheet Arrangements

Throughout our history, we have entered into indemnifications in the ordinary course of business with our customers, suppliers, service providers, business partners and in connection with the purchase and sale of assets, securities and businesses. Additionally, we have indemnified our directors and officers who are, or were, serving at our request in such capacities. Although the specific terms or number of such arrangements is not precisely quantifiable, we do not believe that future costs associated with such arrangements will have a material impact on our financial position, results of operations or cash flows.

The First Amended and Restated Stock Purchase Agreement, dated February 17, 2011 (the "F&G Stock Purchase Agreement") between FGL and OM Group (UK) Limited ("OMGUK") includes a Guarantee and Pledge Agreement which creates certain obligations for FGH as a grantor and also grants a security interest to OMGUK of FGH’s equity interest in FGL Insurance in the event that FGL fails to perform in accordance with the terms of the F&G Stock Purchase Agreement. We are not aware of any events or transactions that resulted in non-compliance with the Guarantee and Pledge Agreement.

Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Actual results could differ materially from those estimates. There have been no material changes to the critical accounting policies and estimates as discussed in our Form 10-K.

Recent Accounting Pronouncements Not Yet Adopted

Investments in Qualified Affordable Housing Projects

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

Joint and Several Liability Arrangements

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

Presentation of Unrecognized Tax Benefit

In July 2013, the FASB issued ASU 2013-11, *"Income taxes (Topic 740): Presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists"*, which requires entities to present unrecognized tax benefits as a reduction of a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward, except to the extent the net operating loss carryforwards or tax credit carryforwards are not available to be used at the reporting date to settle additional income taxes, and the entity does not intend to use them for this purpose. The new accounting guidance is consistent with how the Company has historically accounted for unrecognized tax benefits in its Consolidated Statements of Financial Position; therefore, the Company does not expect the adoption of this guidance to have a significant impact on its consolidated financial statements.

Revenue from Contracts with Customers

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

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

Market Risk Factors

Market risk is the risk of the loss of fair value resulting from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, commodity prices and equity prices. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial instruments are traded.

Through Spectrum Brands, we have market risk exposure from changes in interest rates, foreign currency exchange rates, and commodity prices. Spectrum Brands uses derivative financial instruments to mitigate a portion of the risk from such exposures, when appropriate. Through FGL, we are primarily exposed to interest rate risk and equity price risk and have some exposure to credit risk and counterparty risk, which affect the fair value of financial instruments subject to market risk. Through Compass, we are exposed to a risk of loss arising from adverse changes in oil and natural gas prices, and interest rates charged on borrowings. Compass may use derivative financial instruments to mitigate a portion of the risk from exposures to changes in oil and natural gas prices, when appropriate. Through Salus, we are exposed to credit risk due to non-performance of the asset-based loans originated, and to foreign currency risk on foreign currency-denominated loans. Additionally, HGI is exposed to market risk with respect to its investments and an embedded derivative liability related to its preferred stock. While our subsidiaries or we may enter into derivative contracts to attempt to manage a portion of an underlying market risk, our subsidiaries or we may not be successful managing the intended risk and/or our subsidiaries or we may reduce or eliminate such arrangements at any time.

FGL’s Enterprise Risk Management

FGL has established a dedicated risk management function with responsibility for the formulation of its risk appetite, strategies, policies and limits. FGL’s risk appetite is aligned with how its businesses are managed and how it anticipates future regulatory developments.

FGL has implemented several limit structures to manage risk. Examples include, but are not limited to, the following:

- At-risk limits on sensitivities of earnings and regulatory capital to the capital markets provide the fundamental framework to manage capital markets risks including the risk of asset / liability mismatch;
- Duration and convexity mismatch limits;
- Credit risk concentration limits; and
- Investment and derivative guidelines.

FGL manages its risk appetite based on two key risk metrics:

- Regulatory Capital Sensitivities: the potential reduction, under a moderate capital markets stress scenario, of the excess of available statutory capital above the minimum required under the NAIC regulatory RBC methodology; and
- Earnings Sensitivities: the potential reduction in results of operations under a moderate capital markets stress scenario. Maintaining a consistent level of earnings helps FGL to finance its operations, support capital requirements and provide funds to pay dividends to stockholders.

FGL is also subject to cash flow stress testing pursuant to regulatory requirements. This analysis measures the effect of changes in interest rate assumptions on asset and liability cash flows. The analysis includes the effects of:

- The timing and amount of redemptions and prepayments in FGL’s asset portfolio;
- FGL’s derivative portfolio;
- Death benefits and other claims payable under the terms of FGL’s insurance products;
- Lapses and surrenders in FGL’s insurance products;
- Minimum interest guarantees in FGL’s insurance products; and
- Book value guarantees in FGL’s insurance products.

Equity Price Risk

HGI

HGI is exposed to equity price risk since it uses a portion of its excess cash to acquire marketable equity securities, which as of June 30, 2014, are all classified as trading within “Investments – Equity securities” in the Condensed Consolidated Balance Sheets. HGI follows a trading policy approved by its board of directors which sets certain restrictions on the amounts and types of securities it may acquire.

FGL

FGL is primarily exposed to equity price risk through certain insurance products, specifically those products with guaranteed minimum withdrawal benefits. FGL offers a variety of FIA contracts with crediting strategies linked to the performance of indices such as the S&P 500 Index, Dow Jones Industrials or the NASDAQ 100 Index. The estimated cost of providing guaranteed minimum withdrawal benefits 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, or reduced interest rates 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 net income. The rate of amortization of intangibles related to FIA products and the cost of providing guaranteed minimum withdrawal benefits could also increase if equity market performance is worse than assumed.

To seek to economically hedge the equity returns on these products, FGL purchases derivatives to hedge the FIA equity exposure. The primary way FGL hedges FIA equity exposure is to purchase over the counter equity index call options from broker-dealer derivative counterparties who generally have a minimum credit rating of “Baa2” from Moody’s and “A-” from S&P. The second way FGL hedges FIA equity exposure is by purchasing exchange traded equity index futures contracts. FGL’s hedging strategy has enabled it to reduce its overall hedging costs and achieve a high correlation of returns on the call options purchased relative to the index credits earned by the FIA contractholders. The majority of the call options are one-year options purchased to match the funding requirements underlying the FIA contracts. These hedge programs are limited to the current policy term of the FIA contracts, based on current participation rates. Future returns, which may be reflected in FIA contracts’ credited rates beyond the current policy term, are not hedged. FGL attempts to manage the costs of these purchases through the terms of its FIA contracts, which permit it to change caps or participation rates, subject to certain guaranteed minimums that must be maintained.

The derivatives are used to fund the FIA contract index credits and the cost of the call options purchased is treated as a component of spread earnings. While the FIA hedging program does not explicitly hedge statutory or U.S. GAAP income volatility, the FIA hedging program tends to mitigate a significant portion of the statutory and U.S. GAAP reserve changes associated with movements in the equity market and risk-free rates. This is due to the fact that a key component in the calculation of statutory and U.S. GAAP reserves is the market valuation of the current term embedded derivative. Due to the alignment of the embedded derivative reserve component with hedging of this same embedded derivative, there should be a reasonable match between changes in this component of the reserve and changes in the assets backing this component of the reserve. However, there may be an interim mismatch due to the fact that the hedges which are put in place are only intended to cover exposures expected to remain until the end of an indexing term. To the extent index credits earned by the contractholder exceed the proceeds from option expirations and futures income, FGL incurs a raw hedging loss.

See Note 5, Derivative Financial Instruments, to our Condensed Consolidated Financial Statements for additional details on the derivatives portfolio.

Fair value changes associated with these investments are intended to, but do not always, substantially offset the increase or decrease in the amounts added to policyholder account balances for index products. For the nine months ended June 30, 2014, the annual index credits to policyholders on their anniversaries were $284.7 million. Proceeds received at expiration on options related to such credits were $268.3 million. The shortfall is funded by FGL’s investment spread earnings and futures income.

FGL enters into hedging transactions with respect to market exposures periodically depending on market conditions and FGL’s risk tolerance. The FIA hedging strategy seeks to economically hedge 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 uses a variety of techniques including direct estimation of market sensitivities and value-at-risk to monitor this risk daily. FGL intends to continue to adjust the hedging strategy as market conditions and its risk tolerance change.

Interest Rate Risk

FGL

Interest rate risk is FGL's primary market risk exposure. FGL defines interest rate risk as the risk of an economic loss due to adverse changes in interest rates. This risk arises from FGL's holdings in interest sensitive assets and liabilities, primarily as a result of investing life insurance premiums and fixed annuity deposits received in interest-sensitive assets and carrying these funds as interest-sensitive liabilities. Substantial and sustained increases or decreases in market interest rates can affect the profitability of the insurance products and fair value of FGL's investments, as the majority of FGL's insurance liabilities are backed by fixed maturity securities.

The profitability of most of FGL's products depends on the spreads between interest yield on investments and rates credited on insurance liabilities. FGL has the ability to adjust the rates credited, primarily caps and credit rates, on the majority of the annuity liabilities at least annually, subject to minimum guaranteed values. In addition, the majority of the annuity products have surrender and withdrawal penalty provisions designed to encourage persistency and to help ensure targeted spreads are earned. However, competitive factors, including the impact of the level of surrenders and withdrawals, may limit the ability to adjust or maintain crediting rates at levels necessary to avoid narrowing of spreads under certain market conditions.

In order to meet its policy and contractual obligations, FGL must earn a sufficient return on its invested assets. Significant changes in interest rates expose FGL to the risk of not earning the anticipated spreads between the interest rate earned on its investments and the credited interest rates paid on outstanding policies and contracts. Both rising and declining interest rates can negatively affect interest earnings, spread income, and the attractiveness of certain products.

During periods of increasing interest rates, FGL may offer higher crediting rates on interest-sensitive products, such as indexed universal life insurance and fixed annuities, and it may increase crediting rates on in-force products to keep these products competitive. A rise in interest rates, in the absence of other countervailing changes, will result in a decline in the market value of FGL's investment portfolio.

As part of FGL's asset/liability management program, significant effort has been made to identify the assets appropriate to different product lines and ensure investing strategies match the profile of these liabilities. FGL's asset/liability management program is designed to align the expected cash flows from the investment portfolio with the expected liability cash flows. As such, a major component of managing interest rate risk has been to structure the investment portfolio with cash flow characteristics consistent with the cash flow characteristics of the insurance liabilities. FGL uses actuarial models to simulate cash flows expected from the existing business under various interest rate scenarios. FGL uses these simulations to measure the potential gain or loss in the fair value of interest rate-sensitive financial instruments, to evaluate the adequacy of expected cash flows from assets to meet the expected cash requirements of the liabilities and to determine if it is necessary to lengthen or shorten the average life and duration of its investment portfolio. The "duration" of a security is the time weighted present value of the security's expected cash flows and is used to measure a security's sensitivity to changes in interest rates. When the durations of assets and liabilities are similar, exposure to interest rate risk is minimized because a change in the value of assets could be expected to be largely offset by a change in the value of liabilities.

Spectrum Brands

A substantial portion of Spectrum Brands' debt bears interest at variable rates. If market interest rates increase, the interest rate on Spectrum Brands' variable rate debt will increase and will create higher debt service requirements, which would adversely affect Spectrum Brands' cash flow and could adversely impact its results of operations. Spectrum Brands also has bank lines of credit at variable interest rates. The general level of United States and Canadian interest rates, LIBOR, CDOR and Euro LIBOR affect interest expense. Spectrum Brands periodically uses interest rate swaps to manage such risk. The net amounts to be paid or received under interest rate swap agreements are accrued as interest rates change, and are recognized over the life of the swap agreements as an adjustment to interest expense from the underlying debt to which the swap is designated. The related amounts payable to, or receivable from, the contract counter-parties are included in accrued liabilities or accounts receivable.

Compass

At June 30, 2014, Compass' exposure to interest rate changes related primarily to borrowings under the Compass Credit Agreement. Interest is payable on borrowings under the Compass Credit Agreement based on a floating rate as more fully described in Note 8, Debt, to our Condensed Consolidated Financial Statements. At June 30, 2014, HGI's proportionate share of outstanding borrowings under the Compass Credit Agreement was approximately $250.6 million.

Foreign Exchange Risk

Spectrum Brands

Spectrum Brands is subject to risk from sales and loans to and from its subsidiaries as well as sales to, purchases from and bank lines of credit with, third-party customers, suppliers and creditors, respectively, denominated in foreign currencies. Foreign currency sales and purchases are made primarily in Euro, Pounds Sterling, Mexican Pesos, Canadian Dollars, Australian Dollars and Brazilian Reals. Spectrum Brands manages its foreign exchange exposure from anticipated sales, accounts receivable, intercompany loans, firm purchase commitments, accounts payable and credit obligations through the use of naturally occurring offsetting positions (borrowing in local currency), forward foreign exchange contracts, foreign exchange rate swaps and foreign exchange options. The related amounts payable to, or receivable from, the counter-parties are included in accounts payable or accounts receivable.

Salus

Salus is subject to foreign exchange risks on asset-based loans originated in foreign currencies. Foreign currency loans are made primarily in Canadian Dollars.

Commodity Price Risk

Spectrum Brands

Spectrum Brands is exposed to fluctuations in market prices for purchases of zinc and brass used in their manufacturing processes. Spectrum Brands uses commodity swaps and calls to manage a portion of such risk. The maturity of, and the quantities covered by, the contracts are closely correlated to the anticipated purchases of the commodities. The cost of calls is amortized over the life of the contracts and recorded in cost of goods sold, along with the effects of the swap and call contracts. The related amounts payable to, or receivable from, the counter-parties are included in accounts payable or accounts receivable.

HGI Energy and Compass

Compass' objective in entering into derivative financial instruments is to manage its exposure to commodity price fluctuations, protect its returns on investments, and achieve a more predictable cash flow in connection with its financing activities and borrowings related to these activities. These transactions limit exposure to declines in prices, but also limit the benefits Compass would realize if oil and natural gas prices increase. When prices for oil and natural gas are volatile, a significant portion of the effect of Compass' derivative financial instrument management activities consists of non-cash income or expense due to changes in the fair value of its derivative financial instrument contracts. Cash losses or gains only arise from payments made or received on monthly settlements of contracts or if Compass terminates a contract prior to its expiration.

Compass' most significant market risk exposure is in the pricing applicable to its oil and natural gas production. Realized pricing is primarily driven by the prevailing worldwide price for crude oil and spot market prices for natural gas. Pricing for oil and natural gas production is volatile.

Credit Risk

FGL

FGL is exposed to the risk that a counterparty will default on its contractual obligation resulting in financial loss. The major source of credit risk arises predominantly in FGL's insurance operations portfolios of debt and similar securities. The carrying value of FGL's fixed maturity portfolio totaled $16.8 billion and $15.3 billion at June 30, 2014 and September 30, 2013, respectively. FGL's credit risk materializes primarily as impairment losses. FGL is exposed to occasional cyclical economic downturns, during which impairment losses may be significantly higher than the long-term historical average. This is offset by years where FGL expects the actual impairment losses to be substantially lower than the long-term average. Credit risk in the portfolio can also materialize as increased capital requirements as assets migrate into lower credit qualities over time. The effect of rating migration on FGL's capital requirements is also dependent on the economic cycle and increased asset impairment levels may go hand in hand with increased asset related capital requirements.

FGL seeks to manage the risk of default and rating migration by applying credit evaluation and underwriting standards and limiting allocations to lower quality, higher risk investments. In addition, FGL diversifies its exposure by issuer and country, using rating based issuer and country limits. FGL also sets investment constraints that limit its exposure by industry segment. To limit the impact that credit risk can have on earnings and capital adequacy levels, FGL has portfolio-level credit risk constraints in place. Limit compliance is monitored on a daily or, in some cases, monthly basis.

In connection with the use of call options, FGL is exposed to counterparty credit risk-the risk that a counterparty fails to perform under the terms of the derivative contract. FGL has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the financial loss from defaults. The exposure and credit rating of the counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst seven different approved counterparties to limit the concentration in one counterparty. FGL's policy allows for the purchase of derivative instruments from nationally recognized investment banking institutions with the equivalent of an S&P rating of "A-" or higher. Collateral support documents are negotiated to further reduce the exposure when deemed necessary. See Note 5, Derivative Financial Instruments, to our Condensed Consolidated Financial Statements for additional information regarding FGL's exposure to credit loss.

FGL also has credit risk related to the ability of reinsurance counterparties to honor their obligations to pay the contract amounts under various agreements. To minimize the risk of credit loss on such contracts, FGL diversifies its exposures among many reinsurers and limit the amount of exposure to each based on credit rating. FGL also generally limits its selection of counterparties with which FGL does new transactions to those with an "A-" credit rating or above or that are appropriately collateralized and provide credit for reinsurance. When exceptions are made to that principle, FGL ensures that it obtains collateral to mitigate its risk of loss.

In the normal course of business, certain reinsurance recoverables are subject to reviews by the reinsurers. FGL is not aware of any material disputes arising from these reviews or other communications with the counterparties, and, therefore, as of June 30, 2014, no allowance for uncollectible amounts was recorded.

Salus

Salus is exposed to the risk that some of its borrowers may be unable to repay their loans according to their contractual terms. This inability to repay could result in higher levels of nonperforming assets and credit losses, which could potentially reduce Salus' earnings.

Salus' asset-based loans are a financing tool where the loans are primarily based on the value of the borrowers' available collateral, which is typically accounts receivable, inventory or other such assets. This collateral is viewed as the primary source of repayment of the loans, while the borrowers' creditworthiness is viewed as a secondary source of repayment. Salus utilizes a loan structure and collateral monitoring technology that focuses on the value of the available collateral, which is designed to reduce the risk of loss associated in delayed intervention and/or asset recovery.

As of June 30, 2014, none of Salus' outstanding loans were past due, and the carrying value of the outstanding loans represented approximately 71.0% of the eligible collateral for the loans. See Note 4, Investments, to our Condensed Consolidated Financial Statements, for further details on Salus' asset-based loan portfolio.

Sensitivity Analysis

The analysis below is hypothetical and should not be considered a projection of future risks. Earnings projections are before tax and noncontrolling interest.

Equity Price Risk — Trading

One means of assessing exposure to changes in equity market prices is to estimate the potential changes in market values on the investments resulting from a hypothetical broad-based decline in equity market prices of 10%. As of June 30, 2014, assuming all other factors are constant, we estimate that a 10% decline in equity market prices would have an $9.7 million adverse impact on HGI's trading portfolio of marketable equity securities.

Equity Price Risk — Other

Assuming all other factors are constant, we estimate that a decline in equity market prices of 10% would cause the market value of FGL's equity investments to decline by approximately $66.3 million, its derivative investments to decrease by approximately $43.9 million based on equity positions as of June 30, 2014, and its FIA embedded derivative liability to decrease by approximately $33.8 million. Because FGL's equity investments are classified as available-for-sale, the 10% decline would not affect current earnings except to the extent that it reflects other-than-temporary impairments. These scenarios consider only the direct effect on fair value of declines in equity market levels and not changes in asset-based fees recognized as revenue, or changes in FGL's estimates of total gross profits used as a basis for amortizing DAC and VOBA.

Interest Rate Risk

Spectrum Brands

At June 30, 2014, the potential change in fair value of Spectrum Brands' outstanding interest rate derivative instruments assuming a one percentage point unfavorable shift in interest rates would be a loss of $3.0 million. The net impact on reported earnings, after also including the effect of the change on one year's underlying interest rate exposure on Spectrum Brands' variable rate Term Loan would be a net loss of $3.0 million.

FGL

If interest rates were to increase one percentage point from levels at June 30, 2014, the estimated fair value of fixed maturity securities of FGL would decrease by approximately $979.6 million, of which $51.8 million relates to the Front Street funds withheld assets. The fair values of the reinsurance related embedded derivative would increase by the amount of the Front Street funds withheld assets. The impact on stockholders' equity of such decrease (net of income taxes and intangibles adjustments, and the change in reinsurance related derivative) would be a decrease of $452.6 million in accumulated other comprehensive income and a decrease of $427.3 million in stockholders' equity. If interest rates were to decrease by one percentage point from levels at June 30, 2014, the estimated impact on the embedded derivative liability of such a decrease would be an increase of $122.3 million. The actuarial models used to estimate the impact of a one percentage point change in market interest rates incorporate numerous assumptions, require significant estimates and assume an immediate and parallel change in interest rates without any management of the investment portfolio in reaction to such change. Consequently, potential changes in value of financial instruments indicated by the simulations will likely be different from the actual changes experienced under given interest rate scenarios, and the differences may be material. Because FGL actively manages its investments and liabilities, the net exposure to interest rates can vary over time. However, any such decreases in the fair value of fixed maturity securities (unless related to credit concerns of the issuer requiring recognition of an other-than-temporary impairment) would generally be realized only if FGL was required to sell such securities at losses prior to their maturity to meet liquidity needs, which it manages using the surrender and withdrawal provisions of the annuity contracts and through other means.

Compass

A one percentage point change in interest rates (100 bps) based on our proportionate share of the variable-rate borrowings outstanding as of June 30, 2014 of $250.6 million would result in an increase or decrease in Compass' interest expense of $2.5 million per year. The interest Compass pays on its borrowings is set periodically based upon market rates.

Foreign Exchange Risk

Spectrum Brands

As of June 30, 2014, the potential change in fair value of outstanding foreign exchange derivative instruments of Spectrum Brands, assuming a 10% unfavorable change in the underlying exchange rates, would be a loss of $42.0 million. The net impact on reported earnings, after also including the effect of the change on one year's the underlying foreign currency-denominated exposures, would be a net gain of $15.0 million.

Salus

As of June 30, 2014, the potential change in fair value of outstanding foreign currency denominated asset-based loans, assuming a 10% unfavorable change in the underlying exchange rates, would be a loss of $8.9 million. The net impact on reported earnings, after also including the effect of the change in fair value of certain embedded foreign exchange derivatives included in certain foreign currency denominated asset-based loans would be a net loss of $6.8 million.

Commodity Price Risk

Spectrum Brands

As of June 30, 2014, the potential change in fair value of outstanding commodity price derivative instruments of Spectrum Brands, assuming a 10% unfavorable change in the underlying commodity prices, would be a loss of $2.0 million. The net impact on reported earnings, after also including the reduction in cost of one year's purchases of the related commodities due to the same change in commodity prices, would be a gain of $2.0 million.

Compass

Compass' use of derivative financial instruments could have the effect of reducing its revenues and the value of its securities. For the nine months ended June 30, 2014, a $1.00 increase in the average commodity price per Mcfe would have resulted in an increase in cash settlement payments (or a decrease in settlements received) of approximately $14.6 million. The ultimate settlement amount of Compass' outstanding derivative financial instrument contracts is dependent on future commodity prices. Compass may incur significant unrealized losses in the future from its use of derivative financial instruments to the extent market prices increase and its derivatives contracts remain in place.

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of the end of the period covered by this report. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that, as of June 30, 2014, the Company's disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Notwithstanding the foregoing, there can be no assurance that the Company's disclosure controls and procedures will detect or uncover all failures of persons within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable, not absolute, assurance of achieving their control objectives.

Changes in Internal Controls Over Financial Reporting

An evaluation was performed under the supervision of the Company's management, including the CEO and CFO, of whether any change in the Company's internal control over financial reporting (as defined in the Exchange Act Rules 13a-15(f) and 15d-15(f)) occurred during the quarter ended June 30, 2014. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that no significant changes in the Company's internal controls over financial reporting occurred during the quarter ended June 30, 2014 that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Unless otherwise indicated in this quarterly report on Form 10-Q (this"10-Q") or the context requires otherwise, in this 10-Q, references to the "Company," "HGI," "we," "us" or "our" refer to Harbinger Group Inc. and, where applicable, its consolidated subsidiaries; "Harbinger Capital" refers to Harbinger Capital Partners LLC; "Energy Partnership" refers to Compass Production Partners, LP (formerly, EXCO/HGI Production Partners, LP); and the "Energy General Partner" refers to Compass Production GP, LLC (formerly, EXCO/HGI GP, LLC); "EXCO Parent" refers to EXCO Resources, Inc.; "EXCO" refers to EXCO Parent and, where applicable, its consolidated subsidiaries; the "Compass JV" refers to the oil and gas joint venture owned by HGI Energy and EXCO Parent (formerly, EXCO/HGI JV); "FGL" refers to Fidelity & Guaranty Life (formerly, Harbinger F&G, 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; "Front Street" refers to Front Street Re (Delaware) Ltd. and, where applicable, its consolidated subsidiaries; "FIAM" refers to Five Island Asset Management, LLC (formerly, HGI Asset Management, LLC), which holds our interest in CorAmerica Capital, LLC, FIAM Capital Management, LLC and Energy & Infrastructure Capital LLC; "HCP Stockholders" refers, collectively, to Harbinger Capital Partners Master Fund I, Ltd. (the "Master Fund"), Harbinger Capital Partners Special Situations Fund, L.P. and Global Opportunities Breakaway Ltd.; "HGI Energy" refers to HGI Energy Holdings, LLC; "HGI Funding" refers to HGI Funding, LLC; "Russell Hobbs" refers to Russell Hobbs, Inc. and, where applicable, its consolidated subsidiaries; "HHI Business" refers to the hardware and home improvement business previously owned by Stanley Black & Decker and certain of its subsidiaries; "Salus" refers to Salus Capital Partners, LLC; "Stanley Black & Decker" refers to Stanley Black & Decker, Inc.; "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.

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 our management and the management of our subsidiaries. Generally, forward-looking statements include information concerning possible or assumed future actions, events, results of operations, strategies or expectations of our Company. Factors that could cause actual results, events and developments to differ include, without limitation the ability of our subsidiaries (including, target businesses following their acquisition) to generate sufficient net income and cash flows, to make upstream cash distributions, capital market conditions, and HGI's and its subsidiaries' ability to identify any suitable future acquisition opportunities. Forward-looking statements include, without limitation, statements regarding: efficiencies/cost avoidance, cost savings, income and margins, growth, economies of scale, combined operations, the economy, future economic performance, conditions to, and the timetable for, completing the integration of financial reporting of acquired or target businesses with ours, completing future acquisitions and dispositions, litigation, potential and contingent liabilities, management's plans, business portfolios, changes in regulations and taxes.

Forward-looking statements may be preceded by, followed by or include the words "may," "will," "believe," "expect," "anticipate," "intend," "plan," "estimate," "could," "might," "seek," "project," or "continue" or the negative or other variations thereof or comparable terminology.

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.

Forward-looking statements are not guarantees of performance. You should understand that the following important factors, in addition to those discussed under "Risk Factors," 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.

HGI

HGI'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;
- limitations on our ability to successfully identify additional suitable acquisition 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 Notes due 2019 (the "7.875% Notes"), the continuing covenants contained in the certificate of designation governing our Series A Participating Convertible Preferred Stock (the "Certificate of Designation"), and future financing or refinancing agreements, on our ability to operate our business and finance our pursuit of additional acquisition opportunities;
- the impact of covenants in the indenture governing our 7.75% Notes due 2022;
- 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 holders of our common stock if we issue additional shares of our common stock or preferred stock;
- 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 their 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, and regulatory matters with respect to our Chief Executive Officer and certain funds affiliated with the HCP Stockholders;
- 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, including fluctuations in the price of stock of our public subsidiaries and investees;
- 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 future claims arising from operations, agreements and transactions involving former subsidiaries;
- the impact of expending significant resources in considering acquisition targets or business opportunities that are not consummated;
- our ability to successfully integrate current and future acquired business 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 common stock; and

- the effect of price fluctuations in our common stock caused by general market and economic conditions and a variety of other factors, including the conversion of our preferred stock and other 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 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 business strategies;
- any failure to comply with financial covenants and other provisions and restrictions of Spectrum Brands' debt instruments;
- Spectrum Brands' ability to successfully integrate the HHI Business and achieve the expected synergies from that integration at the expected costs;
- the impact of expenses resulting from the implementation of new business strategies, divestitures or current and proposed restructuring activities;
- 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, depression, labor costs and stock market volatility or changes in trade, monetary or fiscal policies, or public expectations or fears with respect to any of the foregoing 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;
- the effects of political or economic conditions, terrorist attacks, acts of war or other unrest in international markets;
- the significant costs expected to be incurred in connection with the integration of Spectrum Brands and the HHI Business;

- the risk that Spectrum Brands may become responsible for certain liabilities of the HHI Business;
- the risk that integrating Spectrum Brands' business with that of the HHI Business may divert Spectrum Brands' management attention;
- Spectrum Brands dedicating resources of the HHI Business to supply certain products and services to Stanley Black & Decker and its subsidiaries as required following the Hardware Acquisition (as defined herein);
- general customer uncertainty related to the Hardware Acquisition; and
- the limited period of time for which Spectrum Brands has the right to use certain Stanley Black & Decker trademarks, brand names and logos;

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 accuracy of FGL's assumptions and estimates;
- the accuracy of FGL's assumptions regarding the fair value and future performance of its investments;
- FGL's and its insurance subsidiaries' ability to maintain or improve their financial strength ratings;
- FGL's and its insurance subsidiaries' potential need for additional capital to maintain their financial strength and credit ratings and meet other requirements and obligations;
- FGL's ability to manage its business in a highly regulated industry, which is subject to numerous legal restrictions and regulations;
- regulatory changes or actions, including those relating to regulation of asset management 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 insurance subsidiaries to make cash distributions to FGL (including dividends or payments on surplus notes those subsidiaries issue to FGL);
- 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 covenants in the indenture governing FGH's $300 million 6.375% Senior Notes due 2021;
- the impact of interest rate fluctuations on FGL;
- the availability of credit or other financings and the impact of equity and credit market volatility and disruptions on both FGL's ability to obtain capital and the value and liquidity of FGL's investments;
- changes in the U.S. federal income tax laws and regulations that may affect the relative income tax advantages of FGL's products;
- increases in FGL's valuation allowance against FGL's deferred tax assets, and restrictions on FGL's ability to fully utilize such assets;
- FGL being the target or subject of and FGL's ability to defend itself against litigation (including class action litigation) and respond to enforcement investigations or regulatory scrutiny;
- the performance of third parties including distributors and technology service providers, and providers of outsourced services;
- 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 insurance subsidiaries to grow;

- the impact on FGL’s business of new accounting rules or changes to existing accounting rules;
- the risk that FGL’s risk management policies and procedures could leave FGL exposed to unidentified or unanticipated risk;
- general economic conditions and other factors, including prevailing interest and unemployment rate levels and stock and credit market performance which may affect (among other things) FGL’s ability to sell its products, its ability to access capital resources and the costs associated therewith, the fair value of its investments, which could result in impairments and other-than-temporary impairments, and certain liabilities, and the lapse rate and profitability of policies;
- FGL’s ability to protect its intellectual property;
- difficulties arising from FGL’s outsourcing relationships;
- the impact on FGL of man-made catastrophes, pandemics, computer viruses, network security breaches and malicious and terrorist acts;
- FGL’s ability to compete in a highly competitive industry and maintain competitive unit costs;
- the adverse consequences if the independent contractor status of FGL’s independent insurance marketing organizations is successfully challenged;
- the adverse tax consequence to FGL if FGL generates passive income in excess of operating expenses;
- the operating and financial restrictions applicable to FGL, which may prevent FGL from capitalizing on business opportunities;
- the ability of FGL’s subsidiaries and affiliates to generate sufficient cash to service all of their obligations;
- the ability of FGL’s subsidiaries to pay dividends;
- the ability to maintain or obtain approval of the regulatory authorities, including the Iowa Insurance Division (“IID”) and the New York State Department of Financial Services (“NYDFS”) as required for FGL’s operations and those of its insurance subsidiaries;
- FGL’s ability to attract and retain national marketing organizations and independent agents;
- the ability of FGL’s subsidiaries and affiliates to generate sufficient cash to service all of their obligations; and
- the ability of Front Street to effectively implement their respective business strategy.

Salus and FIAM

Salus’ and FIAM's 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:

- Salus’ ability to recover amounts that are contractually owed to it by its borrowers;
- Salus’ ability to continue to find attractive lending opportunities given its rapid growth;
- Salus and FIAM's respective ability to address a number of issues to implement their strategy, grow their business and effectively manage their rapid growth;
- the impact on Salus and FIAM, respectively, resulting from further deterioration in economic conditions;
- Salus and FIAM's respective ability to compete with traditional competitors and new market entrants; and
- Salus and FIAM's respective ability 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.

HGI Energy

HGI Energy’s 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 the Compass JV;

- 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 the Compass JV's actual oil and natural gas sales;
- the Compass JV not having any of its own employees and relying on employees supplied by EXCO Parent and its subsidiaries;
- the failure to resolve any material disagreements between HGI Energy and EXCO Parent relating to the business or operation of the Compass JV;
- the impact of the Compass JV's substantial indebtedness on its business, financial condition and results of operations;
- the Compass JV’s ability to acquire or develop additional reserves, accurately evaluate reserve data or the exploitation potential of its properties, and control the development of its properties;
- the Compass JV’s ability to market and sell its oil, natural gas liquids and natural gas and its exposure to the credit risk of its customers and other counterparties and the risks associated with drilling activities;
- the inherent uncertainty of estimates of oil and natural gas reserves;
- the risk that the Compass JV will be unable to identify or complete, or complete on economically attractive terms, the acquisition of additional properties;
- the Compass JV's ability to successfully operate in a highly regulated and litigious environment, including exposure to operating hazards and uninsured risks;
- the Compass JV's 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 HGI Energy’s products;
- 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 the Compass JV's 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. Legal Proceedings

See Note 14 to the Company’s Condensed Consolidated Financial Statements included in Part I — Item 1. Financial Statements. There were no material developments relating to the matters discussed therein during the fiscal quarter ended June 30, 2014.

Item 1A. Risk Factors

Detailed discussions of our risk factors can be found in our Form 10-K for the fiscal year ended September 30, 2013. Any such risk factors could materially and adversely affect our or our subsidiaries' business, financial condition and results of operations, and these risk factors are not the only risks that we or our subsidiaries may face. Additional risks and uncertainties not presently known to us or our subsidiaries or that are not currently believed to be material also may adversely affect us or our subsidiaries.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the Fiscal 2014 Quarter, HGI did not sell any equity securities that were not registered under the Securities Act. On May 29, 2014, the HGI’s board of directors authorized a program to purchase up to $100.0 million of

HGI’s shares of common stock. The manner of purchase, the number of shares to be purchased and the timing of purchases will be based on the price of HGI's common stock, general business and market conditions and applicable legal requirements, and is subject to the discretion of HGI's management. The program does not require HGI to purchase any specific number of shares or any shares at all, and may be suspended, discontinued or re-instituted at any time without prior notice. On June 16, 2014, the HGI purchased 1,000,000 shares of common stock at a price of $12.10 per share.

During Fiscal 2014 Quarter, HGI converted a total of 279,999 shares of its Series A Participating Convertible Preferred Stock (“Series A Preferred Shares”) and a total of 94,985 shares of its Series A-2 Participating Convertible Preferred Stock, resulting in the issuance of an aggregate of 59,133,819 shares of the Company’s common stock. Following such conversions, all rights of such preferred shareholders, including rights to dividends, terminated except that, in accordance with and for so long as required by the certificate of designation governing the Series A Preferred Shares, one Series A Preferred Share held by CF Turul will not be converted in order to preserve CF Turul’s continuing rights under the certificate of designation governing the Series A Preferred Shares. The Series A Preferred Share held by CF Turul is not entitled to receive any dividends and distributions. The shares issued upon conversion were issued pursuant to Section 3(a)(9) under the Securities Act of 1933, as amended (the “Securities Act”).

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description of Exhibits
4.1	First Supplemental Indenture dated as of May 23, 2014, to the Indenture dated as of December 24, 2013, by and between Harbinger Group Inc. and Wells Fargo Bank, National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2014 (File No. 001-04219)).
10.1	The Harbinger Group Inc. 2014 Warrant Plan (incorporated herein by reference to Annex B to the Company's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on April 29, 2014 (File No. 001-04219)).
10.2*	Common Stock Purchase Warrant Agreement, dated March 10, 2014, by and between Harbinger Group Inc. and Philip Falcone.
10.3*	Severance Agreement and Release effective as of June 13, 2014 by and between Harbinger Group Inc. and Michael Kuritzkes.
31.1*	Certification of CEO Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of CFO Pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of CEO Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of CFO Pursuant to 18 U.S.C Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	XBRL Taxonomy Definition Linkbase.
101.LAB*	XBRL Taxonomy Extension Label Linkbase.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase.

* Filed herewith
** Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HARBINGER GROUP INC.
(Registrant)

Dated	August 8, 2014	By:	/S/ THOMAS A. WILLIAMS
			Executive Vice President and Chief Financial Officer
			(on behalf of the Registrant and as Principal Financial Officer)

Exhibit 10.2

EXECUTION COPY

HARBINGER GROUP INC.

2014 Warrant Plan

Common Stock Purchase Warrant Agreement

This agreement, dated March 10, 2014, certifies that, for value received, Philip A. Falcone (the "Executive") is entitled to subscribe for and purchase from Harbinger Group Inc. (the "Company"), at the price of $13.125 per share (the "Exercise Price"), three million (3,000,000) fully paid and nonassessable shares of Common Stock, $0.01 par value, of the Company ("Common Stock"), subject, however, to the provisions and upon the terms and conditions hereinafter set forth. The Exercise Price and the number and character of the shares with respect to which this Warrant is exercisable are subject to adjustment as hereinafter provided. Except as otherwise expressly set forth herein, this Warrant shall be construed in accordance with the provisions of the Harbinger Group Inc. 2014 Warrant Plan, as amended from time to time (the "Plan"), which provisions shall be incorporated herein by reference. Capitalized terms used herein but not otherwise defined herein shall have the meanings ascribed to such terms in the Plan. In the event of a conflict between the Plan and this Warrant, the terms and conditions of the Plan shall govern. The Committee shall have final authority to interpret and construe the Plan and this Warrant and to make any and all determinations under them, in each case in good faith and such decision shall be binding and conclusive upon the Executive and his representatives in respect of any questions arising under the Plan or this Warrant. Notwithstanding anything in this Warrant or the Plan to the contrary, the Board may, in its sole discretion, at any time and from time to time, administer the Plan and this Warrant as set forth in Section 4(f) of the Plan. In any such case, the Board shall have all the authority granted to the Committee under the Plan and if such power is exercised all references to the Committee shall refer to the Board.

1. *Exercise; Issuance of Certificates; Payment for Shares*.

A This Warrant shall expire at the Expiration Time and shall vest in five equal tranches over the term of the Warrant, with twenty percent (20%) vesting on the date stockholder approval is received as set forth in Section 16 below ("Initial Tranche"), and an additional twenty percent (20%) vesting on each of March 10, 2015, 2016, 2017 and 2018; provided that, subject to Section 7(c) of the Plan, (i) if the Executive has been terminated for Cause (as defined below) all vested and unvested Warrants shall terminate and may not be exercised; (ii) if the Executive has voluntarily terminated his employment with the Company (other than for Good Reason (as defined below) or as a result of death or Disability (as defined below)), then no further vesting of the Warrant shall occur from and after such termination date and the Executive shall have 90 days to exercise the vested Warrants after such termination date; (iii) if the Executive's employment with the Company is terminated by the Executive with Good Reason or by the Company without Cause then, subject to the Release Condition, the Warrant shall continue to vest on the dates that the Warrant would otherwise have vested had the Executive continued to remain employed by the Company and the Executive shall have 90 days from the date of such termination of employment to exercise any portion of the Warrant that shall have become vested prior to the date thereof, and six months after the date of vesting of any portion of the Warrant that vests on or after the date of such termination in accordance with this Section 1A(iii) but in no event shall such exercise period be beyond the Expiration Time (or such earlier date as provided under Sections 8 or 9 of the Plan); and (iv) if the Executive's employment with the Company is terminated as a result of the Executive's death or Disability, then the Warrant shall continue to vest on the dates that the Warrant would otherwise have vested had the Executive continued to remain employed by the Company and the Executive or his representatives shall have twelve months after the date of vesting of such Warrants with respect to any portion of the Warrant that vest in accordance with this Section 1A(iv). The terms "Cause", "Disability" and "Good Reason" shall have the meaning set forth in the Plan, provided that if the Executive and the Company enter into an employment agreement, then Cause, Disability and Good Reason shall have the meaning set forth in such employment agreement, and in the absence of a definition contained therein, Cause, Disability and Good Reason shall have the meaning set forth in the Plan. For purposes of clause (iii), any unvested Warrants shall not expire or be forfeited before satisfaction of the Release Condition but shall expire or be forfeited promptly if and when the Release Condition is not satisfied. The "Release Condition" shall mean (x) if the Executive and the Company have entered into an employment agreement, then the "Release Condition" shall have the meaning set forth in such employment agreement or (y) in an absence of an employment agreement or a definition of Release Condition therein, the Release Condition shall mean the obligation of the Executive to provide, an irrevocable waiver and general release of claims, at the request of the Committee and in connection with a cessation of employment as described in clause (iii), to provide an irrevocable waiver and general release of claims in favor of the Company and its respective Affiliates, their respective predecessors and successors, and all of the respective current or former directors, officers, employees, shareholders, partners, members, agents or representatives of any of the foregoing, in the Company's customary form (subject to modification by the Company to comply with changes in applicable laws) that has become effective and irrevocable in accordance with its terms within fifty-five (55) days after such termination of employment.

B The rights may be so exercised by such holder hereof by the surrender of this Warrant (with the Subscription Agreement annexed hereto appropriately completed) to the Company at its offices at 450 Park Avenue, 30th Floor, New York, New York (or such other office or agency of the Company in New York, New York, as it may designate by notice in writing to the holder hereof at the address of such holder appearing on the books of the Company at any time while this Warrant remains outstanding) and by payment of the Exercise Price, at the election of the Executive in one or a combination of the following manners (i) by tendering in cash, by certified or cashier's check or by wire transfer payable to the order of the Company, (ii) by having the Company withhold shares of Common Stock issuable upon exercise of this Warrant equal in value to the aggregate Exercise Price (as such Exercise Price may be adjusted under this Warrant) as to which this Warrant is so exercised based on the Fair Market Value of the Common Stock, subject to any limitations that the Board or the Committee may impose in order for the Company to remain in compliance with any debt or indenture covenants or similar undertakings or (iii) such other method of paying the Exercise Price (as such Exercise

Price may be adjusted under this Warrant) as the Committee determines to be consistent with applicable law and the terms of the Warrant.

C Subject to the provisions of the next succeeding paragraph, certificates or book entry recordations for the shares so purchased shall be delivered to the holder hereof or his designee promptly after such surrender and delivery, and, unless this Warrant shall have expired, a new Warrant representing the number of shares, if any, with respect to which this Warrant shall not then have been exercised shall also be delivered to the holder hereof.

2. *Agreement of Holder.* The holder of this Warrant, by his acceptance hereof, represents that he is acquiring this Warrant, and will acquire the Common Stock issuable upon any exercise of this Warrant by such holder, for his own account for investment and not with a view to the distribution thereof or with any present intention of selling any thereof, except for a sale of such Common Stock in compliance with the provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, state securities or corporation laws, rules and regulations under any of the foregoing and applicable requirements of any securities exchange upon which the Company's securities shall be listed and the rules and the regulations thereunder.

3. *Shares to be Fully Paid; Reservation of Shares*. All shares issued upon the exercise of the rights represented by this Warrant shall be validly issued, fully paid and nonassessable and free from all taxes, liens and charges with respect to the issue thereof (other than income and employment taxes incurred on exercise or in respect of any transfer occurring contemporaneously with such issue). During the period within which the rights represented by this Warrant may be exercised, the Company shall at all times have authorized, and reserved for the purpose of issuance or transfer upon exercise of the rights evidenced by this Warrant, a sufficient number of shares of Common Stock to provide for the exercise of the rights represented by this Warrant. The Company shall take all such action as may be necessary to assure that such Common Stock may be so issued without violation of any applicable law or regulation, or of any requirements of any domestic securities exchange upon which the Common Stock of the Company may be listed. The Company shall not take any action which would result in any adjustment of the Exercise Price if the total number of Common Stock issuable after such action upon exercise of the Warrant then outstanding would exceed the total number of then authorized but unissued Common Stock.

4. *Adjustments.* Upon the occurrence of any event described in Section 8 or 9 of the Plan, the Warrants may be adjusted in accordance with Section 8 and/or Section 9 of the Plan; provided that, to the extent that the Company accelerates or makes any anti-dilutive or similar adjustments to substantially all of the outstanding stock options issued to the Company's senior executives, then the Company shall make substantially similar acceleration and/or adjustments to the Warrants, in each case to the extent permitted by applicable law and the rules and regulations of the applicable stock exchange.

5. *Record of Ownership; Issue Tax*. The Company may elect to evidence ownership of the Common Stock issued upon the exercise of the Warrants through book entry recordation or the issuance of stock certificates, which in each case shall be made without charge to the holders hereof for any issuance tax in respect thereof, and all such issuance taxes, if any, shall be paid or provided for by the Company prior to the issuance of such recordation or certificates.

6. *No Voting Rights.* This Warrant shall not entitle the holder hereof to any voting rights or other rights as a shareholder of the Company.

7. *Listing of Shares.* The Company agrees to secure the listing of the Common Stock issuable upon the exercise of this Warrant, subject to official notice of issuance, on the New York Stock Exchange, as soon as reasonably practicable but in any event subject to and in accordance with all applicable stock exchange rules.

8. *Registration Books.* The Company shall keep or cause to be kept, at its principal offices (or the office of its agents), proper books in which the name and address of the holder of this Warrant shall be registered.

9. *Warrant Exchangeable; Loss, Theft, Destruction, Etc.* This Warrant is exchangeable, upon the surrender hereof by the holder hereof at the office of the Company, for a new Warrant or new Warrants of like tenor representing in the aggregate the right to subscribe for and purchase the number of Common Stock which may be subscribed for and purchased hereunder as adjusted to date, each such new Warrant to represent the right to subscribe for and purchase such number of Common Stock as shall be designated by such holder hereof at the time of such surrender. Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of this Warrant and, in the case of any such loss, theft or destruction, upon delivery of a bond or indemnity satisfactory to the Company, or, in the case of any such mutilation, upon surrender or cancellation of this Warrant, the Company will issue to the holder hereof a new Warrant of like tenor, in lieu of this Warrant, representing the right to subscribe for and purchase the number of Common Stock which may be subscribed for and purchased hereunder.

10. *Limitations on Transferability; Securities Act Compliance, Registration*. The Warrants may not be assigned, alienated, pledged, attached, sold, gifted, loaned or otherwise transferred or encumbered by the Executive ("Transfer") other than by will or by the laws of descent and distribution, pursuant to a qualified domestic relations order or as otherwise permitted under of the Plan. In the event of the Executive's death, the Warrants shall thereafter be exercisable (to the extent otherwise exercisable hereunder) only by the Executive's executors or administrators. The Common Stock acquired following the exercise of the Warrants may be transferred at any time subject to compliance with applicable law, Sections 10(C) below and compliance with any written holding requirement policy adopted by the Company for senior executives. On or prior to the time at which this Warrant shall become vested in whole or in part or as reasonably promptly practicable thereafter, the Company shall register the shares of Common Stock issued or issuable upon exercise of this Warrant pursuant to a Registration Statement (as defined below); provided that, at the Executive's written election, the vesting of Initial Tranche may be delayed until the Company files a Registration Statement and such Registration Statement is declared effective by the Commission.

A *Definitions.* As used in this Section 10, the following definitions shall be applicable:

"Commission" shall mean the Securities and Exchange Commission or any other federal agency at the time administering the federal securities laws.

"Prospectus" shall mean any preliminary prospectus and final prospectus (as such may be amended or supplemented) which constitutes Part I of a Registration Statement filed with the Commission.

"Registration Statement" shall mean the form and documents required to be filed by an issuer in connection with the registration of securities of such issuer under the Securities Act, including a registration statement on Form S-8 or other form as the Company determines appropriate.

"Restricted Securities" shall mean (i) this Warrant and any warrant or warrants issued in exchange therefor or in replacement thereof and (ii) the Common Stock issued or issuable upon exercise of this Warrant or such other warrants; the certificates for all of which bear the legend referred to in Section 10B; provided, however, that, to the extent permitted by applicable law, any Common Stock issued or issuable upon exercise of this Warrant shall not be treated as Restricted Securities to the extent registered pursuant to a Registration Statement.

"Securities Act" shall mean the Securities Act of 1933, as amended from time to time.

B *Legends*.

(1) Unless and until removed as provided in the next paragraph, this Warrant (and any Warrant or Warrants issued in exchange herefor or replacement hereof) and each certificate or recordation evidencing Common Stock issued upon exercise of this Warrant shall bear a legend in substantially the following form:

In the case of this Warrant: "THE TRANSFER OF THIS WARRANT AND THE COMMON STOCK ISSUABLE UPON EXERCISE HEREOF IS SUBJECT TO CERTAIN RESTRICTIONS CONTAINED IN SECTION 10 HEREOF, AND THE HOLDER OF THIS WARRANT BY ACCEPTANCE HEREOF AGREES TO BE BOUND BY SUCH RESTRICTIONS."

In the case of Common Stock: "THE TRANSFER OF THIS CERTIFICATE AND THE SHARES EVIDENCED HEREBY IS SUBJECT TO CERTAIN RESTRICTIONS CONTAINED IN SECTION 10 OF A COMMON STOCK PURCHASE WARRANT AGREEMENT, DATED MARCH 10, 2014, AND THE HOLDER OF THIS CERTIFICATE OR RECORDATION BY ACCEPTANCE HEREOF AGREES TO BE BOUND BY SUCH RESTRICTIONS. A COPY OF SUCH WARRANT IS ON FILE AT THE PRINCIPAL EXECUTIVE OFFICES OF THE COMPANY WITH THE CORPORATE SECRETARY OF THE COMPANY."

The Company may issue such "stop transfer" instructions to its transfer agent with respect to all or any of the Restricted Securities as it deems appropriate to prevent any violation of the provisions of this Section 10 or of the Securities Act.

(2) The Company shall issue a new Warrant or certificate or recordation which does not contain the legend set forth in Section 10B(1) if (i) the shares represented thereby are sold pursuant to a Registration Statement (including a current Prospectus) which has become and is effective under the Securities Act or (ii) the staff of the Commission shall have issued a "no action" letter to the effect that, or counsel acceptable to the Company shall have rendered

its opinion (which opinion shall be acceptable to the Company) that, such securities may be sold without registration under the Securities Act.

(3) At the time of any exercise of this Warrant, if believed in good faith to be reasonably necessary or appropriate to assure compliance with the requirements of the applicable law, the Company may require, as a condition of allowing such exercise, that the holder of this Warrant furnish to the Company such information as, in the opinion of the Company, is reasonably necessary in order to establish that such exercise is made in compliance with the registration requirements of the Securities Act or may be made without registration under the Securities Act, including without limitation a written statement that such holder is acquiring the security receivable upon such exercise for its own account for investment and not with a view to the distribution thereof or with any present intention of selling any thereof.

C *Notice of Transfer; Opinion of Counsel.* If a holder of Restricted Securities proposes to transfer all or a portion of such securities, such holder shall give the Company written notice specifying the securities involved and describing the manner in which the proposed transfer is to be made, together with either (i) at the Company's request, an opinion of counsel satisfactory to the Company stating in substance that registration under the Securities Act is not required with respect to such transfer (the reasonable fees and expenses of such opinion of counsel to be paid by the Company) or (ii) a "no action" letter from the staff of the Commission with respect to such transfer. Following delivery of a notice accompanied by an opinion of counsel to the effect set forth above or by such a "no action" letter, such holder shall have the right to transfer, in a manner consistent with its notice to the Company, the Restricted Securities proposed to be transferred, unless the Company determines within 20 days following such delivery that registration under the Securities Act is required with respect to such proposed transfer. Such holder shall cooperate with the Company for the purpose of permitting such determination to be made, including, to the extent deemed necessary by the Company, procuring and delivering to the Company an investment letter signed by the proposed transferee and subject to statutory minimum tax withholding liability requirements.

11. *Taxes and Withholding*. The Executive shall be responsible for all income taxes payable in respect of the exercise of the Warrant and the acquisition of Common Stock issuable upon exercise of the Warrant. The Executive shall be required to pay to the Company, and the Company shall have the right and is hereby authorized to withhold any cash, Common Stock, other securities or other property or from any compensation or other amounts owing to the Executive, the amount of any required withholding taxes in respect of the Common Stock, and to take such other action as may be necessary in the opinion of the Committee to satisfy all obligations for the payment of such withholding taxes, if applicable. In addition, the Executive shall be permitted to satisfy this obligation pursuant to Section 11(c)(ii) of the Plan, without requiring the Committee's consent, subject to any limitations that the Board or Committee may impose in order for the Company to remain in compliance with any debt or indenture covenants or similar undertakings.

12. *Section 409A*. It is intended that the Shares be exempt from or comply with Section 409A of the Code and this Warrant shall be interpreted consistent therewith. This Warrant is subject to Section 11(q) of the Plan.

13. *Electronic Delivery.* By executing this Warrant, the Executive hereby consents to the electronic delivery of prospectuses, annual reports and other information required to be delivered by the Commission's rules. This consent may be revoked in writing by the Executive at any time upon three business days' notice to the Company, in which case subsequent prospectuses, annual reports and other information will be delivered in hard copy to the Executive.

14. *Entire Agreement.* This Warrant and the Plan contain the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein and supersede all prior communications, representations and negotiations in respect thereto. No change, modification or waiver of any provision of this Warrant shall be valid unless the same be in writing and signed by the parties hereto.

15. *Descriptive Headings and Governing Law.* The descriptive headings of the several paragraphs of this Warrant are inserted for convenience only and do not constitute a part of this Warrant. This Warrant shall be construed and interpreted in accordance with the laws of the State of Delaware without regard to principles of conflicts of law thereof, or principals of conflicts of laws of any other jurisdiction which could cause the application of the laws of any jurisdiction other than the State of Delaware.

16. *Shareholder Approval.* This Warrant and the Plan are subject to shareholder approval, and if such approval is not obtained prior to December 31, 2014, then this Warrant shall be cancelled in its entirety without any payment to the Executive.

17. *Notices*. All notices, demands and other communications provided for or permitted hereunder shall be made in writing and shall be by registered or certified first-class mail, return receipt requested, courier service or personal delivery (i) if to the Company: Harbinger Group Inc., 450 Park Avenue, 30th Floor, New York, NY, 10022, Facsimile: (212) 906-8559, Attention: Legal Department, and (ii) if to the Executive, at the Executive's last known address on file with the Company. All such notices, demands and other communications shall be deemed to have been duly given when delivered by hand, if personally delivered; when delivered by courier, if delivered by commercial courier service; and five business days after being deposited in the mail, postage prepaid if mailed.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, the Company and the Executive have executed this Warrant on this March 10, 2014.

HARBINGER GROUP INC.

By: /s/ Thomas A. Williams

Name: Thomas A. Williams

Title: Executive Vice President & Chief Financial Officer

ATTEST: /s/ Ehsan Zargar

Name: Ehsan Zargar

Title: Corporate Secretary

Agreed to by:

/s/ Philip A. Falcone

Philip A. Falcone

SUBSCRIPTION AGREEMENT

Date: ____________________

To: Harbinger Group Inc.

The undersigned, pursuant to the provisions set forth in the within Warrant, hereby agrees to subscribe for and purchase ___________Common Stock covered by such Warrant, and makes payment herewith in full therefor at the price per share provided by such Warrant, and (check the applicable boxes).

Tenders herewith payment of the Exercise Price (as such Exercise Price may be adjusted under this Warrant) in full in the form of cash, certified check, official bank check or by wire transfer, for account of the Company, in the amount of $ for of such Common Stock.

Elects to receive that number of Common Stock equal to the quotient of (i) (x) the Per Share Value, multiplied by ____ shares of Common Stock as to which the Warrant is being exercised *minus* (y) the aggregate Exercise Price (as such Exercise Price may be adjusted under this Warrant) with respect to such Common Stock, *divided by* (ii) the Per Share Value. “Per Share Value” means the Fair Market Value of the Common Stock.

Signature

Name:

Address

SEVERANCE AGREEMENT AND RELEASE

This Severance Agreement and Release ("Agreement") is entered into between Michael Kuritzkes ("Employee") and Harbinger Group Inc. (the "Company").

1. **Recitals**

(a) Employee and the Company are parties to an employment agreement dated as of June 17, 2013 (the "Employment Agreement");

(b) The Employment Agreement requires that Employee execute a release as a condition to receiving severance payments and benefit; and

(c) Employee and the Company desire to fully and finally resolve and settle any and all issues between them, actual or potential, whether or not relating to Employee's employment with the Company and the termination of such employment as set forth in this Agreement.

2. **Last Day of Employment**

Employee and the Company acknowledge and agree that the Recitals set forth in Paragraph 1 of this Agreement are accurate. Employee's last day of employment is June 13, 2014 (the "Termination Date"). As of the Termination Date, Employee will be relieved of the duties and responsibilities of Employee's position, and will have no authority to and may not represent himself as an employee or agent of the Company for any purpose.

3. **Payments to Employee**

(a) Separation Payments. Provided that Employee delivers to the Company a signed original of this Agreement after the Termination Date and within the time period described in Paragraph 6(b) of this Agreement and does not revoke this Agreement, and subject to Employee's compliance with the Non-Disclosure of Confidential Information, Return of Property, Non-Disparagement, Intellectual Property Rights and Non-Solicitation provisions of the Employment Agreement and Paragraph 9 (Confidentiality and Non-Disclosure of Company Information) of this Agreement, the Company will pay and provide Employee, and Employee will accept, as and on behalf of Releasor from the Company on behalf of each Releasee, the following payments and benefits ("Separation Payments") in consideration for Employee's release of claims against the Company and Releasees as set forth in this Agreement, Employee's agreeing to the covenants set forth in Paragraph 9 of this Agreement, and the other promises and obligations set forth in this Agreement:

(i) severance pay in the amount of $500,000, payable in substantially equal monthly installments consistent with the Company's payroll practices;

(ii) vesting of options to purchase 12,500 shares of Company stock that were awarded to Employee pursuant to the Employee Nonqualified Option Award Agreement between Employee and the Company dated as of August 16, 2013 (the "August Stock Option Agreement");

(iii) vesting of 8,333 shares of Restricted Stock that were awarded to Employee pursuant to the Restricted Stock Award Agreement between Employee and the Company dated as of August 16, 2013 (the "August Restricted Stock Agreement");

(iv) payment of $62,000, which is 50% of the unpaid deferred cash portion of Employee's 2013 Annual Bonus;

(v) vesting of options to purchase 7,773 shares of Company stock that were awarded to Employee pursuant to the Employee Nonqualified Option Award Agreement between Employee and the Company dated as of December 2, 2013 (the

(vi) "December Stock Option Agreement," and together with the August Stock Option Agreement, the "Stock Option Agreements");

(vii) vesting of 19,360 shares of Restricted Stock that were awarded to Employee pursuant to the Restricted Stock Award Agreement between Employee and the Company dated as of December 2, 2013 (the "December Restricted Stock Agreement," and together with the August Restricted Stock Agreement, the "Restricted Stock Agreements");

(viii) eligibility for an Annual Bonus for the fiscal year ending September 30, 2014, which shall be paid (for the cash portion of any such bonus) or granted (for the equity portion of any such bonus) on the same terms and at the same time as other executives, except that (A) Employee shall only be entitled to 50% of any deferred cash component of the Annual Bonus, if any, which shall be paid as a lump sum payment made within seventy-four (74) days of the end of the fiscal year for which it is awarded (notwithstanding any provision of Section 5(c)(ii) of the Employment Agreement, or Section 3(b) of this Agreement, providing for earlier payment), (B) only 50% of the equity grant (restricted stock and options) otherwise calculated pursuant to Appendix A of the Employment Agreement will be awarded, and (C) such equity grant shall be granted, and will be vested, as of the date the Annual Bonus is awarded; and

(ix) if Employee elects health insurance continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), then the Company will reimburse Employee for the cost of COBRA premiums in excess of the cost of such benefits that active employees of the Company are required to pay for a period of twelve (12) months or until Employee obtains individual or family coverage through another employer, whichever comes first (the "COBRA Period"), subject to the conditions that: (A) Employee is responsible for immediately notifying the Company if Employee obtains alternative insurance coverage, (B) Employee will be responsible for the entire COBRA premium amount after the end of the COBRA Period; (C) if Employee declines COBRA coverage, then the Company will not make any alternative payment to Employee in lieu of paying for COBRA premiums, and (D) such COBRA reimbursement payments shall be paid on an after tax basis as additional taxable compensation to the Employee.

(b) <u>Deductions; Time of Payments; Forfeiture of Unvested Awards</u>. All Separation Payments and vested equity grants are subject to withholding and deductions as required by applicable laws. Separation Payments which do not constitute nonqualified deferred compensation and are not subject to Section 409A (as defined in the Employment Agreement) shall commence five (5) days after the Release Condition (as defined in the Employment Agreement) is satisfied and payments and benefits which are subject to Section 409A shall commence on the 60th day after the Termination Date (subject to further delay, if required pursuant to Section 20(d) of the Employment Agreement) provided that the Release Condition is satisfied. All of Employee's unvested restricted stock and option awards, and deferred cash compensation awards, that did not vest as of the Termination Date shall be forfeited as of the Termination Date.

(c) <u>Other Payments</u>. The Company shall pay Employee's accrued but unpaid Base Salary (as defined in the Employment Agreement) through the Termination Date, unused vacation time accrued through the Termination Date, and unreimbursed business expenses (pursuant to the Employment Agreement) incurred through the Termination Date. Employee's rights to receive benefits after the Termination Date from employee benefit plans (other than the

Harbinger Group Inc. Severance Plan) in which Employee was a participant while employed by the Company shall be governed by the terms of such employee benefit plans.

(d) Consideration. Employee acknowledges and agrees that: (i) the Separation Payments set forth above are adequate consideration for all of the terms of this Agreement; (ii) the Separation Payments set forth above do not include any benefit, monetary or otherwise, that was earned or accrued or to which Employee was already entitled without signing this Agreement on the date this Agreement was executed by Employee; and (iii) any monetary or other benefits which, prior to the execution of this Agreement, Employee may have earned or accrued or to which Employee may have been entitled (other than the payments described in Paragraph 3(c) above) have been paid, or such payments or benefits are expressly described in this Agreement or have been released, waived or settled by Releasor pursuant to this Agreement.

(e) Repayment. Employee acknowledges that notwithstanding any provision of this Paragraph 3 to the contrary, to the extent that any portion of the Severance Payments is determined to be incentive compensation that is required by applicable law or written Company policy adopted to implement the requirements of such law (including without limitation Section 304 of the Sarbanes Oxley Act and Section 954 of the Dodd Frank Act) to be subject to any required clawback, forfeiture, recoupment or similar requirement, then such amount shall be subject to any required clawback, forfeiture, recoupment or similar requirement.

4. **Release and Waiver of Claims by Employee**

THIS PARAGRAPH PROVIDES A COMPLETE RELEASE AND WAIVER OF ALL EXISTING AND POTENTIAL CLAIMS EMPLOYEE MAY HAVE AGAINST EVERY PERSON AND ENTITY INCLUDED WITHIN THE DESCRIPTION BELOW OF "RELEASEE." BEFORE EMPLOYEE SIGNS THIS RELEASE, EMPLOYEE MUST READ THIS PARAGRAPH 4 CAREFULLY, AND MAKE SURE THAT EMPLOYEE UNDERSTANDS IT FULLY.

(a) In consideration of Employee's receipt and acceptance of the consideration contained in this Agreement from and/or on behalf of Releasees, Employee, on Employee's own behalf and on behalf of Employee's heirs, executors, administrators, successors and assigns, (collectively, "Releasor") hereby irrevocably, unconditionally and generally releases:

(i) the Company;

(ii) the Company's parents, and direct and indirect affiliates, subsidiaries, divisions, and other related entities ("Affiliates"), including without limitation Harbinger Capital Partners, LLC;

(iii) all funds managed by the Company and its Affiliates ("Funds") (collectively, the Company, its Affiliates and Funds are referred to as the "HGI Entities"); and

(iv) the current and former shareholders, directors, officers, partners, members, agents, attorneys and employees, of the HGI Entities, including without limitation Philip A. Falcone ("Affiliated Persons") (the persons described in Paragraphs 4(a)(i) - (iv) are collectively referred to as "Releasees", and each, as "Releasee")

from or in connection with, and Releasor hereby waives and/or settles, with prejudice, any and all actions, causes of action, suits, debts, dues, sums of money, accounts, controversies, agreements, promises, damages, judgments, executions, or any liability, claims or demands, known or unknown and of any nature whatsoever and which Releasor ever had, now has or hereafter can, shall or may have as of the Effective Date of this Agreement, including, without limitation, arising directly or indirectly pursuant to or out of any aspect of Employee's employment with the Company or any relationship with any other Releasee, the payment or nonpayment of any compensation by any of the HGI Entities, the performance of services for the Company or any Releasee or the termination of such employment or services.

(b) Specifically, without limitation, this release shall include and apply to any rights and/or claims

(i) arising under any contract or employment arrangement between Employee and the Company, express or implied, written or oral, including without limitation the Employment Agreement and any bonus agreement or equity award agreement;

(ii) for payment of any bonuses, except for the bonus payments expressly set forth in Section 3(a) of this Agreement;

(iii) for constructive termination, unfair dismissal and/or wrongful dismissal or termination of employment;

(iv) arising under any applicable federal, state, local or other statutes, orders, laws, ordinances, regulations or the like, or case law, that relate to employment or employment practices and/or, specifically, that prohibit discrimination based upon age, race, religion, sex, national origin, pregnancy, disability or any other unlawful bases, including without limitation, the United States Constitution, the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1991, as amended, the Civil Rights Acts of 1866 and 1871, as amended, the Americans with Disabilities Act of 1990, as amended, the Age Discrimination in Employment Act, as amended, the Family Medical Leave Act of 1993, as amended, the Pregnancy Discrimination Act of 1978, as amended, Employee Retirement Income Security Act of 1990, as amended, the Workers Adjustment and Relocation Notice Act, as amended, the Equal Pay Act, as amended, the Sarbanes Oxley Act, as amended, and the Dodd Frank Act, and any similar applicable statutes, orders, laws, ordinances, regulations or the like, or case law, of the State of New York or any state in which any Releasee is subject to jurisdiction, and/or any political subdivision thereof, including without limitation, the New York State Human Rights Law (including its prohibitions of age discrimination), as amended, the New York City Human Rights Law (including its prohibitions of age discrimination), as amended, the New York Labor Law, as amended, and the New York Civil Rights Law, as amended; or based upon any other federal, state or local statutes, orders, laws, ordinances, regulations or the like, to the fullest extent permitted by such law;

(v) for tortious or harassing conduct, infliction of mental distress, interference with contract, fraud, libel or slander, or on any other common law basis; and

(vi) for damages, including without limitation, punitive or compensatory damages, or for attorneys' fees, expenses, costs, wages, injunctive or equitable relief.

(c) Notwithstanding any provision of the foregoing to the contrary, Employee is not waiving or releasing:

(i) any claims for indemnification pursuant to the Employment Agreement or any applicable law;

(ii) any claims for vested benefits pursuant to the terms of the employee benefit plans in which Employee was a participant before the Termination Date;

(iii) any claims relating to Employer's ownership of (A) 22,927 shares of Company stock granted to Employee on November 29, 2013, or (B) vested options to purchase 9,205 shares of Company stock that were awarded to Employee pursuant to the December Stock Option Agreement;

(iv) any claims which arise after the Effective Date; and

(v) any claims to enforce this Agreement.

5. **Release of Unknown Claims**

Releasor expressly understands and acknowledges that it is possible that unknown losses or claims exist or that present losses may have been underestimated in amount or severity, and Releasor explicitly took that into account in determining the amount of consideration to be paid for the giving of the releases described in Paragraph 4 of this Agreement, and a portion of said consideration and the mutual covenants contained herein, having been bargained for between the parties with the knowledge of the possibility of such unknown claims, were given in exchange for a full satisfaction and discharge of all such claims.

6. **Employee Acknowledgments**

By executing this Agreement, Employee agrees and acknowledges that:

(a) Employee understands all of the terms of this Agreement, and such terms are fair and reasonable, and are not the result of any fraud, duress, coercion, pressure or undue influence exercised by or on behalf of any Releasee;

(b) Employee has been provided a reasonable period of time (*e.g.*, at least twenty one (21) days) to review and consider signing this Agreement;

(c) Employee has been informed that Employee has a period of seven (7) calendar days after the date of delivery of a signed Agreement the President of the Company at 450 Park Avenue, 30th Floor, New York, NY 10022 in which Employee may revoke this Agreement (the "Revocation Period"), and that revocation must be made by delivery of written notice of revocation to the President of the Company at 450 Park Avenue, 30th Floor, New York, NY 10022 prior to the end of the Revocation Period.

(d) Employee has been directed by the Company to consult with an attorney of Employee's choice before signing this Agreement;

(e) Employee is not relying on any representation or statement made or contained outside of those set forth in this Agreement and Employee expressly disclaims reliance on any such representation or statement; and

(f) Employee has agreed to and entered into this Agreement and all of the terms hereof, knowingly, freely and voluntarily.

7. **Effect of This Agreement on the Employment Agreement**

Employee and the Company acknowledge and agree that any Nondisclosure of Confidential Information, Non-Solicitation, Return of Property, Intellectual Property Rights, Non-Disparagement, Remedies and Injunctive Relief, Cooperation, Arbitration, Governing Law and Venue, Amendment, Waiver, 409A, Indemnification, Severability, No Construction Against Drafter, Notices, and Headings and References provisions of the Employment Agreement shall survive the cessation of Employee's employment by the Company, and that all of the other provisions of the Employment Agreement shall cease to be in effect as of the Termination Date. Employee and the Company further acknowledge and agree that if there is any conflict between the Nondisclosure of Confidential Information, Return of Property, or Non-Disparagement provisions of the Employment Agreement and similar provisions of this Agreement, then the provisions of this Agreement will be controlling.

8. **Covenant Not to Sue**

Employee represents and warrants that Employee has not filed or commenced any complaints, claims, actions or proceedings of any kind against any Releasee with any federal, state or local court or any administrative, regulatory or arbitration agency or body. Employee agrees not to commence, maintain, prosecute or participate as a party in any action or proceeding in any court or arbitration forum against the Company or any other Releasee with respect to any claim arising from any act, omission, transaction or occurrence up to and including the Effective Date of the execution of this Agreement which is released and waived by Paragraph 4 of this Agreement. Employee further agrees not to instigate, encourage, assist or participate in any court action or arbitration proceeding commenced by any other person (except a government agency or as required by subpoena or court order) against the Company or any other Releasee. In the event any government agency seeks to obtain any relief on behalf of Employee with regard to any claim released and waived by Paragraph 4 of this Agreement, Employee covenants not to accept, recover or receive any monetary relief or award that may arise out of or in connection with any such proceeding.

9. **Company Non-Admission**

This Agreement and the Separation Payments made under this Agreement are not intended to be, shall not be construed as and are not an admission or concession by any Releasee of any wrongdoing or illegal or actionable acts or omissions, and each Releasee expressly denies that any of them engaged in any wrongdoing or illegal or actionable acts or omissions. Employee, as and on behalf of Releasor, hereby represents and agrees that no written or oral statements, suggestions or representations that any Releasee has made or implied any such admission or concession have been or shall be made directly or indirectly by or on behalf of Employee.

10. **Confidentiality and Non-Disclosure of Company Information**

Employee hereby acknowledges that during Employee's employment Employee had access to, and may have acquired, proprietary, private and/or otherwise confidential information ("Confidential Information," as defined and described in this paragraph). Confidential Information shall mean all non-public information, whether or not created or maintained in written or electronic form, which constitutes, relates to or refers to, among other things not numerated:

(i) The Company and/or any other Releasee, and/or any aspect of any Releasee's business or activities, including without limitation their trade secrets; their business and product development plans; their marketing strategies and plans; their financial information; their investment performance and investment performance data; their manner and method of conducting business; customers and potential customers; and investors and prospective investors;

(ii) any natural person or entity ("Person") identified as a potential investor in or customer of or who Employee knows to be a potential investor in or customer of any of the HGI Entities;

(iii) any Person with which any Releasee transacted business during Employee's employment;

(iv) any non-public information obtained from any Person other than a Releasee which is protected and/or governed by a confidentiality agreement or other understanding that the information be treated as confidential;

(v) any information or documents provided or produced in any litigation involving any Releasee, or that are protected and/or governed by a confidentiality agreement or stipulation;

(vi) any information protected and/or governed by the attorney-client privilege, work product immunity or any similar privilege or immunity; and

(vii) any personal information, including without limitation any information involving the personal lives or habits, of any Releasee who is a natural person or any immediate relative of any Releasee who is a natural person.

All of the foregoing are illustrative, and Confidential Information shall not be limited to those illustrations.

(a) Employee and/or any Releasor agree not to use any Confidential Information or Confidential Materials, in any manner, directly or indirectly, and agree not to disclose, orally or in writing or by any other means, directly or indirectly, to any person (other than to Employee’s attorney and accountant, each of whom shall be directed by Employee not to disclose such information), any Confidential Information or Confidential Materials, including without limitation the information described in Paragraphs 10(a)(i)-(vi), and further agree not to disclose to any other person:

(i) information concerning any aspect of Employee’s employment with the Company or relationship with any other Releasee, the payment or nonpayment of any wages or compensation, the performance of services for the Company or any Releasee, or the termination of such employment or services;

(ii) any facts, claims or assertions relating or referring to any conduct or practices by or on behalf of any Releasee;

(iii) any facts, claims or assertions relating or referring to any experiences of Employee or treatment Employee received by or on behalf of any Releasee during Employee’s employment through the date of this Agreement, which experiences or treatment could have provided a factual or legal basis for any claim of any kind in any action or proceeding before any court or administrative or arbitral body;

(iv) the existence or terms of this Agreement; and

(v) the amount of any payment made hereunder.

(b) Notwithstanding the foregoing,

(i) the provisions of this Paragraph 10 do not apply to Employee’s truthful testimony in court or an administrative or arbitration tribunal, and do not restrict Employee in providing information in response to a subpoena or court order, provided, however, that this clause (i) does not waive any attorney-client privilege or work product immunity with respect to any communication between Employee and the Company and/or its employees and agents that is subject to such privilege or immunity;

(ii) in response to any inquiry concerning any of the foregoing or otherwise, Employee may describe the positions and salaries Employee held, the job duties and functions Employee performed, and the dates of commencement and termination of Employee’s employment; and

(c) In the event that Employee and/or any Releasor receives a subpoena or any other written or oral request for any Confidential Information, Confidential Materials or any other information concerning any Releasee, including without limitation, such information governed by Paragraph 10 of this Agreement, Employee shall, to the extent permissible by law, within two (2) business days of the service or receipt of such subpoena or other request:

(i) notify the Company in writing, by email to Omar Asali (or his successor) with a copy to the Legal Department of the Company; and

(ii) provide a copy of such subpoena or other request, if in writing, and/or disclose the nature of the request for information, if oral, to Omar Asali (or his successor) and a copy of any such document to the Legal Department of the Company.

(d) Employee acknowledges that this Paragraph 10 constitutes a material term in this Agreement, without which the Company would not enter into this Agreement.

11. **Company Remedies**

The covenants, representations and acknowledgments made by Releasor in this Agreement shall survive the execution of this Agreement and the delivery of the Separation Payments to be made hereunder. Except as may be prohibited by law, in the event that Employee has committed or commits a breach of any term, condition or covenant in Paragraph 9 of this Agreement or in any of the Non-Disparagement, Non-Solicitation, or Return of Property provisions of the Employment Agreement, Releasees shall be excused and released from any obligation to make the Separation Payments contemplated by this Agreement and any installment thereof; Releasor shall be obligated to return to the Company any such payment that has been paid pursuant to Paragraph 3(a); and Releasor shall also be liable for any damages suffered or incurred by any Releasee by reason of such misstatement or breach. Notwithstanding anything to the contrary in this Paragraph 11, under no circumstances will the Company be excused from paying, nor shall Employee be obligated to return, an amount of $50,000 of the total consideration paid to Employee under Paragraph 3(a) of this Agreement.

12. **Entire Agreement; Severability**

This Agreement, the Employment Agreement (to the extent applicable as described in Paragraph 7 of this Agreement), the Stock Option Agreements and the Restricted Stock Agreements together constitute the sole and complete understanding and agreement between the parties with respect to the matters set forth herein, and there are no other agreements or understandings, whether written or oral and whether made contemporaneously or otherwise. If any provision of this Agreement is determined to be void, voidable or unenforceable, it shall have no effect on the remainder of this Agreement, which shall remain in full force and effect.

13. **Choice of Law and Venue**

This Agreement shall in all respects be subject to, governed by and enforced and construed pursuant to and in accordance with the laws of the State of New York, without regard to and excluding the choice of law rules of any applicable jurisdiction. Any dispute arising under this Agreement shall be subject to arbitration pursuant to Article VIII of the Plan. Furthermore, with respect to any controversy, claim or dispute between Employee and any Releasee that is not subject to arbitration and with respect to any proceeding in aid of or in connection with arbitration or to enforce, modify or vacate an arbitration award, Employee agrees and consents to submit to personal jurisdiction in the State of New York in any state or federal court of competent subject matter jurisdiction situated in New York County, New York. In addition, Employee waives any right to challenge in another court any judgment entered by such New York County court or to assert that any action instituted by the Company in any such court is in the improper venue or should be transferred to a more convenient forum. Further, Employee and the Company waive any right Employee or it may otherwise have to a trial by jury in any action to enforce the terms, or for breach, of this Agreement.

14. **Amendment; No Waiver; Section 409A**

(a) No provisions of this Agreement may be amended, modified, waived or discharged except by a written document signed by Employee and a duly authorized officer of the Company (other than Employee).

(b) The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement. No failure or delay by either party in exercising any right or power hereunder will operate as a waiver thereof, nor will any single or partial exercise of any such right or power, or any abandonment of any steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power.

(c) It is the intention of the Company and Employee that this Agreement comply with the requirements of Section 409A, and this Agreement will be interpreted in a manner intended to comply with or be exempt from Section 409A. The Company and Employee agree to negotiate in good faith to make amendments to this Agreement as the parties mutually agree are necessary or desirable to avoid the imposition of taxes or penalties under Section 409A. Notwithstanding the foregoing, Employee shall be solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on or for the account of Employee in connection with this Agreement (including any taxes and penalties under Section 409A), and neither the Company nor any Affiliate shall have any obligation to indemnify or otherwise hold Employee (or any beneficiary) harmless from any or all of such taxes or penalties.

(d) Notwithstanding anything in this Agreement to the contrary, in the event that Employee is deemed to be a “specified employee” within the meaning of Section 409A(a)(2)(B)(i), no payments hereunder that are “deferred compensation” subject to Section 409A shall be made to Employee prior to the date that is six (6) months after the date of Employee’s “separation from service” (as defined in Section 409A) or, if earlier, Employee’s date of death. Following any applicable six (6) month delay, all such delayed payments will be paid in a single lump sum on the earliest permissible payment date. For purposes of Section 409A, each of the payments that may be made under this Agreement are designated as separate payments.

(e) For purposes of this Agreement, with respect to payments of any amounts that are considered to be “deferred compensation” subject to Section 409A, references to “termination of employment” (and substantially similar phrases) shall be interpreted and applied in a manner that is consistent with the requirements of Section 409A relating to “separation from service”.

(f) Employee acknowledges that the Company has advised Employee to consult with an attorney regarding this Agreement, and how Section 409A applies to the Separation Payments.

15. **Effective Date**

Employee shall deliver the executed copy of this Agreement after the Termination Date and within twenty one (21) days of the Termination Date to Harbinger Group Inc., 450 Park Avenue, 30th Floor, New York, NY 10022, Attention: President. This Agreement will become final and binding upon expiration of the seven (7) day Revocation Period described in Paragraph 6(c) without timely revocation by Employee (the “Effective Date”).

[Remainder of the page intentionally left blank]

IN WITNESS WHEREOF, and intending to be legally bound hereby, the parties have hereunto set their hands.

/s/ Michael Kuritzkes

Michael Kuritzkes

Date: June 18, 2014

Harbinger Group Inc.

/s/ Philip A. Falcone

Name: Chief Executive Officer

Date: June 11, 2014

Exhibit 31.1

CERTIFICATION OF CEO PURSUANT TO RULE 13a-14(a) or 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Philip A. Falcone, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Harbinger Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2014

/s/ PHILIP A. FALCONE

Philip A. Falcone
Chairman of the Board and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CFO PURSUANT TO RULE 13a-14(a) or 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas A. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Harbinger Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2014

/s/ THOMAS A. WILLIAMS

Thomas A. Williams

Executive Vice President and Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CEO PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Harbinger Group Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Philip A. Falcone, as Chairman of the Board and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ PHILIP A. FALCONE

Philip A. Falcone
Chairman of the Board and Chief Executive Officer

August 8, 2014

This Certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

Exhibit 32.2

CERTIFICATION OF CFO PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Harbinger Group Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas A. Williams, as the Executive Vice President and Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ THOMAS A. WILLIAMS

Thomas A. Williams

Executive Vice President and Chief Financial Officer

August 8, 2014

This Certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.