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

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from to

Commission file number: 1-4219

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

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

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

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

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

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

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

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

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

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

(1) Description of Business
Harbinger Group Inc. ("HGI" and, collectively with its respective subsidiaries, the "Company") is a diversified holding company. HGI is focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries and growing acquired businesses. In addition to acquiring controlling interests, HGI may make investments in debt instruments, acquire minority equity interests in companies and expand its operating businesses. HGI’s shares of common stock trade on the New York Stock Exchange ("NYSE") under the symbol "HRG".
In December 2013, Fidelity & Guaranty Life ("FGL"), a then wholly-owned subsidiary of HGI, announced an initial public offering of 9,750 thousand shares of common stock at a price to the public of $17.00 per share. The shares began trading on the NYSE on December 13, 2013 under the ticker symbol "FGL". FGL also granted the underwriters an option to purchase an additional 1,463 thousand shares of common stock that was subsequently exercised. HGI was not a selling shareholder in the offering. Subsequent to the offering HGI held 47,000 thousand shares of FGL's outstanding common stock, representing an 80.4% interest as of June 30, 2014.
Also in December 2013, Front Street Re (Cayman) Ltd. ("Front Street Cayman"), a wholly-owned subsidiary of HGI, closed a reinsurance treaty with Bankers Life Insurance Company. Under the terms of the treaty, Bankers Life Insurance Company ceded approximately $153.0 of its annuity business to Front Street Cayman on a funds withheld basis.
Furthermore in December 2013, HGI's subsidiary Spectrum Brands Holdings, Inc., a Delaware corporation ("Spectrum Brands"), amended a senior secured term loan, issuing two tranches maturing September 4, 2019 which provide for borrowings in aggregate principal amounts of $215.0 and €225.0. The proceeds from the amendment were used to refinance a portion of the term loan which was scheduled to mature December 17, 2019 and had an aggregate amount outstanding of $513.3 prior to refinancing.
In January 2014, Spectrum Brands completed the $35.8 acquisition of The Liquid Fence Company, Inc. ("Liquid Fence"), a producer of animal repellents. See Note 3, Acquisitions.
Also in January 2014, HGI issued $200.0 aggregate principal amount of 7.75% senior unsecured notes due 2022 at par (the "7.75% Notes"). See Note 8, Debt.
In May 2014, HGI exercised its option to convert all but one of its issued and outstanding shares of Series A Participating Convertible Preferred Stock (“Series A Preferred Shares") and all of its outstanding Series A-2 Participating Convertible Preferred Stock (“Series A-2 Preferred Shares", together with the Series A Preferred Shares, the "Preferred Stock") into common stock of the Company, par value $0.01. Upon the conversion, holders of the Series A Preferred Shares received approximately 160.95 shares of common stock per Series A Preferred Share converted and holders of Series A-2 Preferred Share received approximately 148.11 shares of common stock per Series A-2 Preferred Share converted. Upon converting the outstanding preferred stock, the Company recognized a loss of $43.9, representing the difference between the fair value of the common stock issued on the conversion date and the aggregate recorded value of the preferred stock and the fair value of the equity conversion option as of the conversion date. The remaining Series A Preferred Shares will not be entitled to receive any dividends or distributions, and remains to preserve certain governance rights as set forth in the certificate of designation.
Also in May 2014, HGI exchanged $320.6 of its outstanding 7.875% Senior Secured Notes due 2019 (the “Senior Secured Notes”) for $350.0 aggregate principal amount of new 7.750% Senior Notes due 2022 (the “Additional 7.75% Notes”). Following settlement, HGI had $604.4 in aggregate principal amount of the Senior Secured Notes outstanding and $550.0 in aggregate principal amount of 7.750% Senior Notes due 2022 outstanding. See Note 8, Debt.

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

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

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

proved reserves by applying the average price as prescribed by the SEC Release No. 33-8995, less estimated future expenditures (based on current costs) to develop and produce the proved reserves, discounted at 10%, plus the cost of properties not being amortized and the lower of cost or estimated fair value of unproved properties included in the costs being amortized, net of income tax effects.

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

Compass did not recognize an impairment to its proved oil and natural gas properties for the three months ended June 30, 2014 and June 30, 2013 and for the period from inception to period ended June 30, 2013. Compass recognized impairments of $81.0 to its proved oil and natural gas properties for the nine months ended June 30, 2014. We previously received an exemption from the SEC to exclude the acquisition of Compass' unamortized oil and natural gas properties from the ceiling test for a period of one year following the acquisition date and this exemption expired during the interim period ended March 31, 2014. The impairments primarily resulted from differences in the oil and natural gas prices utilized in the purchase price allocation at the acquisition date and the prices used in the ceiling test calculation. Our pricing utilized in the purchase price allocation as of the acquisition date was based on models which incorporate, among other things, market prices based on New York Mercantile Exchange ("NYMEX") futures. The ceiling test requires companies using the full cost accounting method to price period ending proved reserves using the simple average spot price for the trailing twelve month period, which may not be indicative of actual market values. The ceiling test calculation and impairment evaluation are based upon estimates of proved reserves. There are numerous uncertainties inherent in estimating quantities of proved reserves, in projecting the future rates of production and in the timing of development activities. The accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Results of drilling, testing and production subsequent to the date of the estimate may justify revision of such estimate. Accordingly, reserve estimates are often different from the quantities of oil, natural gas and natural gas liquids that are ultimately recovered.

Insurance Subsidiary Financial Information

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

On November 1, 2013, Fidelity and Guaranty Life Insurance Company ("FGL Insurance") re-domesticated from Maryland to Iowa. After re-domestication, FGL Insurance elected to apply Iowa-prescribed accounting practices that permit Iowa-domiciled insurers to report equity call options used to economically hedge fixed indexed annuity ("FIA") index credits at amortized cost for statutory accounting purposes and to calculate FIA statutory reserves such that index credit returns will be included in the reserve only after crediting to the annuity contract. This resulted in a

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

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prescribed and permitted statutory accounting practice has no impact on the Company's consolidated financial statements which are prepared in accordance with US GAAP.

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

Recent Accounting Pronouncements

Offsetting Assets and Liabilities

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

Investments in Qualified Affordable Housing Projects

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

Joint and Several Liability Arrangements

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

Presentation of Unrecognized Tax Benefit

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

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Revenue from Contracts with Customers

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

(3) Acquisitions

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

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

Compass (formerly the EXCO/HGI JV)

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

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Supplemental Pro Forma Information

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

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

Liquid Fence

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

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

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

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

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Preliminary Valuation of Assets and Liabilities

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

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

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

Preliminary Pre-Acquisition Contingencies Assumed

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

Preliminary Valuation Adjustments

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

A summary of the significant key inputs is as follows:

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

and transaction agreements and the relative profitability

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

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

Frederick's of Hollywood

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

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

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

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

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

Preliminary Valuation of Assets and Liabilities

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

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

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

Preliminary Valuation Adjustments

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

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

CorAmerica

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

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(4) Investments

The Company’s consolidated investments are summarized as follows:

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

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

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

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

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

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

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

Maturities of Fixed-maturity Securities

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

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

Securities in an Unrealized Loss Position

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

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

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

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

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

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

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

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

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Credit Loss Portion of Other-than-temporary Impairments

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

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

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

Asset-based Loans

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

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

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

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

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Credit Quality Indicators

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

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

Net Investment Income

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

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

Net investment gains

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

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

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

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

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

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

Concentrations of Financial Instruments

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

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(5) Derivative Financial Instruments

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

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

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

Changes in AOCI from Derivative Instruments

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

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

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

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Fair Value Contracts and Other

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

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

Additional Disclosures

Cash Flow Hedges

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

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

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

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

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

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

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

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

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

Other Embedded Derivatives

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

Credit Risk

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

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

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

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

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

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

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

Collateral Agreements

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

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

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(6) Fair Value of Financial Instruments

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

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