HARBINGER GROUP INC.
Form 10-Q
August 10, 2012
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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 July 1, 2012

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, 27th 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 140,166,935 shares of the registrant s common stock outstanding as of August 6, 2012.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

HARBINGER GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	July 1, 2012	September 30, 2011 (a)
	(Unaudited)	
ASSETS		
Consumer Products and Other:		
Cash and cash equivalents	$ 262,261	$ 321,352
Short-term investments	204,241	350,638
Receivables, net	428,440	394,283
Inventories, net	552,515	434,630
Prepaid expenses and other current assets	85,460	143,654
Total current assets	1,532,917	1,644,557
Properties, net	208,888	206,799
Goodwill	688,045	610,338
Intangibles, net	1,716,977	1,683,909
Deferred charges and other assets	94,454	97,324
	4,241,281	4,242,927
Insurance and Financial Services:		
Investments:		
Fixed maturities, available-for-sale, at fair value	15,069,952	15,367,474
Equity securities, available-for-sale, at fair value	242,264	287,043
Derivative investments	160,565	52,335
Asset-backed loans and other invested assets	92,424	44,279
Total investments	15,565,205	15,751,131
Cash and cash equivalents	1,570,565	816,007
Accrued investment income	183,453	212,848
Reinsurance recoverable	2,326,425	1,612,036
Intangibles, net	410,879	457,167
Deferred tax assets	131,937	207,729
Other assets	151,604	291,043
	20,340,068	19,347,961
Total assets	$ 24,581,349	$ 23,590,888
LIABILITIES AND EQUITY		
Consumer Products and Other:		
Current portion of long-term debt	$ 28,251	$ 16,090
Accounts payable	251,932	328,635
Accrued and other current liabilities	251,820	317,629
Total current liabilities	532,003	662,354

Long-term debt	2,296,404	2,032,690
Equity conversion feature of preferred stock	199,360	75,350
Employee benefit obligations	80,353	89,857
Deferred tax liabilities	369,444	338,679
Other liabilities	30,188	44,957
	3,507,752	3,243,887
Insurance and Financial Services:		
Contractholder funds	15,285,816	14,549,970
Future policy benefits	3,602,729	3,598,208
Liability for policy and contract claims	113,192	56,650
Note payable		95,000
Other liabilities	474,245	381,597
	19,475,982	18,681,425
Total liabilities	22,983,734	21,925,312
Commitments and contingencies		
Temporary equity:		
Redeemable preferred stock	313,450	292,437
Harbinger Group Inc. stockholders equity:		
Common stock	1,402	1,393
Additional paid-in capital	854,776	872,683
Accumulated deficit	(257,259)	(128,083)
Accumulated other comprehensive income	253,812	149,448
Total Harbinger Group Inc. stockholders equity	852,731	895,441
Noncontrolling interest	431,434	477,698
Total permanent equity	1,284,165	1,373,139
Total liabilities and equity	$ 24,581,349	$ 23,590,888

(a) Derived from the audited consolidated financial statements as of September 30, 2011 and retrospectively adjusted for the finalization of provisional acquisition accounting balances (see Note 14).

See accompanying notes to condensed consolidated financial statements.

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HARBINGER GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Month Period Ended		Nine Month Period Ended	
	July 1, 2012	July 3, 2011 (a)	July 1, 2012	July 3, 2011 (a)
	(Unaudited)		(Unaudited)	
Revenues:				
Consumer Products and Other:				
Net sales	$ 824,803	$ 804,635	$ 2,419,859	$ 2,359,586
Insurance and Financial Services:				
Premiums	12,044	25,118	42,170	25,118
Net investment income	179,297	176,885	539,057	176,885
Net investment gains (losses)	(12,906)	1,228	254,616	1,228
Insurance and investment product fees and other	8,922	26,424	28,161	26,424
	187,357	229,655	864,004	229,655
Total revenues	1,012,160	1,034,290	3,283,863	2,589,241
Operating costs and expenses:				
Consumer Products and Other:				
Cost of goods sold	533,107	510,941	1,584,106	1,511,215
Selling, general and administrative expenses	209,770	222,939	638,186	690,493
	742,877	733,880	2,222,292	2,201,708
Insurance and Financial Services:				
Benefits and other changes in policy reserves	140,990	129,959	559,702	129,959
Acquisition and operating expenses, net of deferrals	20,010	28,595	100,763	28,595
Amortization of intangibles	26,880	21,340	111,979	21,340
	187,880	179,894	772,444	179,894
Total operating costs and expenses	930,757	913,774	2,994,736	2,381,602
Operating income	81,403	120,516	289,127	207,639
Interest expense	(54,447)	(51,904)	(194,417)	(192,650)
(Increase) decrease in fair value of equity conversion feature of preferred stock	(125,540)	5,960	(124,010)	5,960
Bargain purchase gain from business acquisition		158,341		158,341
Gain on contingent purchase price reduction			41,000	
Other income (expense), net	(17,446)	1,126	(25,947)	1,089
Income (loss) from continuing operations before income taxes	(116,030)	234,039	(14,247)	180,379
Income tax expense (benefit)	(5,855)	3,720	50,605	63,906
Net income (loss)	(110,175)	230,319	(64,852)	116,473
Less: Net income (loss) attributable to noncontrolling interest	24,925	13,015	18,765	(18,811)

Net income (loss) attributable to controlling interest		(135,100)		217,304		(83,617)		135,284
Less: Preferred stock dividends and accretion		13,980		5,963		45,559		5,963
Net income (loss) attributable to common and participating preferred stockholders	$	(149,080)	$	211,341	$	(129,176)	$	129,321
Net income (loss) per common share attributable to controlling interest:								
Basic	$	(1.07)	$	1.16	$	(0.93)	$	0.71
Diluted	$	(1.07)	$	1.16	$	(0.93)	$	0.71

(a) Retrospectively adjusted for the finalization of provisional acquisition accounting balances (see Note 14).

See accompanying notes to condensed consolidated financial statements.

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HARBINGER GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Month Period Ended July 1, 2012	Nine Month Period Ended July 3, 2011
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ (64,852)	$ 116,473
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Bargain purchase gain from business acquisition		(158,341)
Depreciation of properties	28,812	34,785
Amortization of intangibles	158,529	64,413
Stock-based compensation	17,060	22,903
Amortization of debt issuance costs	7,384	9,876
Amortization of debt discount	591	4,105
Write off of debt issuance costs on refinanced debt	2,945	15,420
Write off of unamortized (premium) discount on refinanced debt	(466)	8,950
Deferred income taxes	57,910	68,951
Gain on contingent purchase price adjustment	(41,000)	
Cost of trading securities acquired for resale	(741,127)	
Proceeds from trading securities sold	829,821	
Interest credited/index credits to contractholder account balances	414,750	80,563
Amortization of fixed maturity discounts and premiums	67,881	35,221
Net recognized gains on investments and derivatives	(103,192)	(8,985)
Charges assessed to contractholders for mortality and administration	(10,394)	(14,259)
Deferred policy acquisition costs	(157,620)	(17,293)
Cash transferred to reinsurers	(176,770)	(25,907)
Non-cash restructuring and related charges	3,021	8,312
Changes in operating assets and liabilities	(92,440)	(288,902)
Net cash provided by (used in) operating activities	200,843	(43,715)
Cash flows from investing activities:		
Proceeds from investments sold, matured or repaid	4,386,328	1,114,541
Cost of investments acquired	(3,860,613)	(1,254,487)
Acquisitions, net of cash acquired	(185,067)	684,417
Asset-backed loans originated	(74,533)	
Capital expenditures	(33,583)	(27,649)
Other investing activities, net	300	4,816
Net cash provided by investing activities	232,832	521,638
Cash flows from financing activities:		
Proceeds from issuances of senior notes	517,000	498,459
Proceeds from preferred stock issuance, net of issuance costs		269,000
Repayment of senior subordinated toggle notes, including tender and call premium	(270,431)	
Payment of extinguished senior credit facilities, including prepayment penalties		(100,900)
Revolving credit facility activity	2,500	55,000
Proceeds from other debt financing	6,192	15,349
Repayments of other debt	(102,083)	(905)
Debt issuance costs	(11,163)	(26,976)
Purchases of subsidiary stock	(85,050)	
Contractholder account deposits	1,736,023	241,075
Contractholder account withdrawals	(1,505,408)	(491,182)
Dividends paid on preferred stock	(23,406)	
Other financing activities, net	(953)	(1,447)

Net cash provided by financing activities	263,221	457,473
Effect of exchange rate changes on cash and cash equivalents	(1,429)	(2,414)
Net increase in cash and cash equivalents	695,467	932,982
Cash and cash equivalents at beginning of period	1,137,359	256,831
Cash and cash equivalents at end of period	$ 1,832,826	$ 1,189,813
Cash and cash equivalents Consumer Products and Other	$ 262,261	$ 449,190
Cash and cash equivalents Insurance and Financial Services	1,570,565	740,623
Total cash and cash equivalents at end of period	$ 1,832,826	$ 1,189,813

See accompanying notes to condensed consolidated financial statements.

HARBINGER GROUP INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Amounts in thousands, except per share figures)

(1) Description of Business and Basis of Presentation

Harbinger Group Inc. (HGI and, collectively with its respective subsidiaries, the Company) is a diversified holding company, the outstanding common stock of which is 93.2% owned, collectively, by Harbinger Capital Partners Master Fund I, Ltd. (the Master Fund), Global Opportunities Breakaway Ltd. and Harbinger Capital Partners Special Situations Fund, L.P. (together, the Principal Stockholders), not giving effect to the conversion rights of the Series A Participating Convertible Preferred Stock (the Series A Preferred Stock) or the Series A-2 Participating Convertible Preferred Stock (the Series A-2 Preferred Stock , together the Preferred Stock). Such common stock ownership by the Principal Stockholders represents a voting interest of 68.8% in relation to the existing voting rights of all HGI s common and preferred stockholders. HGI s shares of common stock trade on the New York Stock Exchange (NYSE) under the symbol HRG.

HGI is focused on obtaining controlling equity stakes in companies that operate across a diversified set of industries and growing acquired businesses. The Company has identified the following five indicative sectors in which it intends to pursue business opportunities: consumer products/retail, insurance and financial services, energy, natural resources and agriculture. The Company may also pursue business opportunities in other indicative sectors. In addition to acquiring controlling interests, HGI may make investments in debt instruments, acquire minority equity interests in companies and expand its operating businesses. The Company also owns 97.9% of Zap.Com Corporation (Zap.Com), a public shell company that may seek assets or businesses to acquire or may sell assets and/or liquidate.

On January 7, 2011, HGI completed the acquisition (the Spectrum Brands Acquisition) of a controlling financial interest in Spectrum Brands Holdings, Inc., a Delaware corporation (Spectrum Brands), under the terms of a contribution and exchange agreement (the Exchange Agreement) with the Principal Stockholders. The Spectrum Brands Acquisition was considered a transaction between entities under common control and was accounted for similar to the pooling of interest method whereby the results of HGI and Spectrum Brands were retrospectively combined back to June 16, 2010, the date that common control was first established and, prior to that date, reflected only the results of Spectrum Brands, Inc. (SBI) as the Company s accounting predecessor. As of July 1, 2012, the Company s beneficial ownership of the outstanding common stock of Spectrum Brands was 57.5%. Spectrum Brands is a global branded consumer products company which trades on the NYSE under the symbol SPB.

On April 6, 2011, the Company acquired Fidelity & Guaranty Life Holdings, Inc. (formerly, Old Mutual U.S. Life Holdings, Inc.), a Delaware corporation (FGL), from OM Group (UK) Limited (OMGUK). Such acquisition (the FGL Acquisition) was accounted for using the acquisition method of accounting. Accordingly, the results of FGL s operations are reflected in the Company s consolidated results of operations commencing April 6, 2011. FGL is a provider of annuity and life insurance products in the United States of America.

As a result of the Spectrum Brands Acquisition and the FGL Acquisition, the Company currently operates in two major business segments, consumer products and, commencing April 6, 2011, insurance (see Note 18 for segment data). In addition, the Company recently formed Salus Capital Partners, LLC (Salus), a subsidiary engaged in providing secured asset-based loans to entities across a variety of industries. Commencing January 2, 2012, the financial position and results of operations of Salus are reflected in the Insurance and Financial Services sections of the condensed consolidated balance sheet and statements of operations, respectively, and as Other financial services in the segment data set forth in Note 18.

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).

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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. These interim financial statements should be read in conjunction with the Company s annual consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K filed with the SEC on December 14, 2011 (the Form 10-K). The results of operations for the nine months ended July 1, 2012 are not necessarily indicative of the results for any subsequent periods or the entire fiscal year ending September 30, 2012.

(2) Comprehensive Income (Loss)

Comprehensive income (loss) and the components of other comprehensive income (loss), net of tax, are as follows:

	Three Month Period Ended		Nine Month Period Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Net income (loss)	$ (110,175)	$ 230,319	$ (64,852)	$ 116,473
Other comprehensive income (loss):				
Consumer Products and Other:				
Foreign currency translation	(34,148)	13,139	(30,538)	33,009
Net unrealized gain (loss) on derivative instruments	1,010	(653)	2,127	(3,718)
Actuarial adjustments to pension plans	429		973	
Deferred tax valuation allowance adjustments	465	(216)	214	860
	(32,244)	12,270	(27,224)	30,151
Insurance and Financial Services:				
Unrealized investment gains (losses):				
Changes in unrealized investment gains before reclassification adjustment	168,530	227,381	454,793	227,381
Net reclassification adjustment for gains included in net income	(41,920)	(15,032)	(175,658)	(15,032)
Changes in unrealized investment gains after reclassification adjustment	126,610	212,349	279,135	212,349
Adjustments to intangible assets	(61,254)	(71,344)	(92,527)	(71,344)
Changes in deferred income tax asset/liability	(22,874)	(49,352)	(65,357)	(49,352)
Net unrealized gain on investments	42,482	91,653	121,251	91,653
Non-credit related other-than-temporary impairment:				
Changes in non-credit related other-than-temporary impairment	81	(144)	(1,530)	(144)
Adjustments to intangible assets	(5)	48	598	48
Changes in deferred income tax asset/liability	(27)	34	326	34
Net non-credit related other than-temporary impairment	49	(62)	(606)	(62)
Net change to derive comprehensive income (loss) for the period	10,287	103,861	93,421	121,742
Comprehensive income (loss)	(99,888)	334,180	28,569	238,215
Less: Comprehensive income (loss) attributable to the noncontrolling interest:				
Net income (loss)	24,925	13,015	18,765	(18,811)
Other comprehensive income (loss)	(13,707)	5,583	(12,037)	13,719

	11,218	18,598	6,728	(5,092)
Comprehensive income (loss) attributable to the controlling interest	$ (111,106)	$ 315,582	$ 21,841	$ 243,307

Net gains or losses resulting from the translation of assets and liabilities of foreign subsidiaries are accumulated, net of taxes and noncontrolling interest, in the Accumulated other comprehensive income (AOCI) section of HGI s stockholders equity. Also included are the effects of exchange rate changes on intercompany balances of a long-term nature.

The changes in accumulated foreign currency translation for the three and nine month periods ended July 1, 2012 and July 3, 2011 were primarily attributable to the impact of translation of the net assets of the Company s European and Latin American operations, which primarily have functional currencies in Euros, Pounds Sterling and Brazilian Real.

Net unrealized gains and losses on investment securities classified as available-for-sale are reduced by deferred income taxes and adjustments to intangible assets, including value of business acquired (VOBA) and deferred policy acquisition costs (DAC), that would have resulted had such gains and losses been realized. Changes in net unrealized gains and losses on investment securities classified as available-for-sale are recognized in other comprehensive income and loss. See Note 6 for additional disclosures regarding VOBA and DAC.

(3) Investments

Consumer Products and Other

HGI s short-term investments consist of (1) marketable equity and debt securities classified as trading and carried at fair value with unrealized gains and losses recognized in earnings, including certain securities for which the Company has elected the fair value option under Accounting Standards Codification (ASC) Topic 825, *Financial Instruments*, which would otherwise have been classified as available-for-sale, and (2) U.S. Treasury securities and a certificate of deposit classified as held-to-maturity and carried at amortized cost, which approximates fair value. The Company s short-term investments are summarized as follows:

	July 1, 2012	September 30, 2011
Trading:		
Marketable equity securities	$ 162,518	$ 262,085
Marketable debt securities	6,725	12,665
	169,243	274,750
Held-to-maturity:		
U.S. Treasury securities	34,747	75,638
Certificate of deposit	251	250
	34,998	75,888
Total short-term investments	$ 204,241	$ 350,638

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Insurance and Financial Services

FGL s debt and equity securities have been designated as available-for-sale and are carried at fair value with unrealized gains and losses included in AOCI, net of associated VOBA, DAC and deferred income taxes. Investments of FGL and Salus at July 1, 2012 and September 30, 2011 are summarized as follows:

	July 1, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value and Carrying Value
Available-for-sale securities				
Asset-backed securities	$ 821,203	$ 6,112	$ (4,629)	$ 822,686
Commercial mortgage-backed securities	520,806	24,185	(6,468)	538,523
Corporates	10,442,653	576,410	(40,285)	10,978,778
Equities	237,440	7,362	(2,538)	242,264
Hybrids	632,001	17,189	(22,334)	626,856
Municipals	1,110,090	137,054	(1,044)	1,246,100
Agency residential mortgage-backed securities	163,855	4,662	(491)	168,026
Non-agency residential mortgage-backed securities	560,696	4,177	(15,046)	549,827
U.S. Government	127,943	11,213		139,156
Total available-for-sale securities	14,616,687	788,364	(92,835)	15,312,216
Derivative investments	145,871	39,027	(24,333)	160,565
Asset-backed loans and other invested assets	92,424			92,424
Total investments	$ 14,854,982	$ 827,391	$ (117,168)	$ 15,565,205

	September 30, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value and Carrying Value
Available-for-sale securities				
Asset-backed securities	$ 501,469	$ 1,785	$ (2,770)	$ 500,484
Commercial mortgage-backed securities	580,313	3,427	(18,163)	565,577
Corporates	11,479,862	506,264	(130,352)	11,855,774
Equities	292,112	3,964	(9,033)	287,043
Hybrids	699,915	10,429	(51,055)	659,289
Municipals	824,562	111,929	(7)	936,484
Agency residential mortgage-backed securities	217,354	4,966	(295)	222,025
Non-agency residential mortgage-backed securities	465,666	1,971	(23,120)	444,517
U.S. Government	175,054	8,270		183,324
Total available-for-sale securities	15,236,307	653,005	(234,795)	15,654,517
Derivative investments	171,612	405	(119,682)	52,335
Other invested assets	44,279			44,279
Total investments	$ 15,452,198	$ 653,410	$ (354,477)	$ 15,751,131

Included in AOCI were unrealized gains of $851 and $524 and unrealized losses of $1,880 and $24 related to the non-credit portion of other-than-temporary impairments on non-agency residential-mortgage-backed securities at July 1, 2012 and September 30, 2011, respectively.

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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.

	July 1, 2012	
	Amortized Cost	**Fair Value**
Corporate, Non-structured Hybrids, Municipal and U.S. Government securities:		
Due in one year or less	$ 883,426	$ 885,160
Due after one year through five years	2,425,302	2,483,897
Due after five years through ten years	3,491,058	3,687,917
Due after ten years	5,367,535	5,800,096
Subtotal	12,167,321	12,857,070
Other securities which provide for periodic payments:		
Asset-backed securities	821,203	822,686
Commercial-mortgage-backed securities	520,806	538,523
Structured hybrids	145,366	133,820
Agency residential mortgage-backed securities	163,855	168,026
Non-agency residential mortgage-backed securities	560,696	549,827
Total fixed maturity available-for-sale securities	$ 14,379,247	$ 15,069,952

As part of FGL s ongoing securities monitoring process, FGL evaluates whether securities in an unrealized loss position could potentially be other-than-temporarily impaired. Excluding the non-credit portion of other-than-temporary impairments on non-agency residential-mortgage backed securities above, FGL has concluded that the fair values of the securities presented in the table below were not other-than-temporarily impaired as of July 1, 2012. This conclusion is derived from the issuers continued satisfaction of the securities obligations in accordance with their contractual terms along with the expectation that they will continue to do so. Also contributing to this conclusion is FGL s determination that it is more likely than not that FGL will not be required to sell these securities prior to recovery, an assessment of the issuers financial condition, and other objective evidence. As it specifically relates to asset-backed securities and commercial mortgage-backed securities, the present value of cash flows expected to be collected is at least the amount of the amortized cost basis of the security and FGL management has the intent to hold these securities for a period of time sufficient to allow for any anticipated recovery in fair value.

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

	July 1, 2012					
	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	$ 372,352	$ (3,931)	$ 8,346	$ (698)	$ 380,698	$ (4,629)
Commercial-mortgage-backed securities	17,426	(3,120)	39,478	(3,348)	56,904	(6,468)
Corporates	1,237,999	(20,327)	304,068	(19,958)	1,542,067	(40,285)
Equities	43,755	(2,029)	15,752	(509)	59,507	(2,538)
Hybrids	111,544	(3,213)	170,406	(19,121)	281,950	(22,334)
Municipals	109,336	(930)	12,410	(114)	121,746	(1,044)
Agency residential mortgage-backed securities	9,499	(211)	6,207	(280)	15,706	(491)
Non-agency residential mortgage-backed securities	161,839	(5,082)	190,638	(9,964)	352,477	(15,046)
Total available-for-sale securities	$ 2,063,750	$ (38,843)	$ 747,305	$ (53,992)	$ 2,811,055	$ (92,835)
Total number of available-for-sale securities in an unrealized loss position						359

	September 30, 2011					
	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	$ 275,135	$ (2,770)	$	$	$ 275,135	$ (2,770)
Commercial-mortgage-backed securities	338,865	(18,163)			338,865	(18,163)
Corporates	3,081,556	(130,352)			3,081,556	(130,352)
Equities	99,772	(9,033)			99,772	(9,033)
Hybrids	450,376	(51,055)			450,376	(51,055)
Municipals	1,137	(7)			1,137	(7)
Agency residential mortgage-backed securities	25,820	(295)			25,820	(295)
Non-agency residential mortgage-backed securities	375,349	(23,120)			375,349	(23,120)
Total available-for-sale securities	$ 4,648,010	$ (234,795)	$	$	$ 4,648,010	$ (234,795)
Total number of available-for-sale securities in an unrealized loss position						505

As the amortized cost of all investments was adjusted to fair value as of the FGL Acquisition date, no individual securities had been in a continuous unrealized loss position greater than twelve months as of September 30, 2011.

At July 1, 2012 and September 30, 2011, securities in an unrealized loss position were primarily concentrated in investment grade corporate debt instruments, residential mortgage-backed securities and hybrids. Total unrealized losses were $92,835 and $234,795 at July 1, 2012 and September 30, 2011, respectively. Financial sector-related exposure represents the largest component of the unrealized loss position in the portfolio at July 1, 2012 and September 30, 2011. The improvement in unrealized loss positions in corporate debt instruments from September 30, 2011 to July 1, 2012 was primarily a result of improving conditions for corporate issues.

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Liquidity efforts by global central banks continue to be supportive to European institutions and risk assets have strengthened as a result. Prices on the portfolio s mortgage-related securities have also risen on a decline in risk aversion, as well as on signs that the housing market in the United States is believed to be at, or near, its bottom. The portfolio s hybrid and subordinated securities have improved in price on better risk sentiment, as well as on actions on the part of banks (typical issuers of such securities) who have elected to call these securities at their issue price due to changing regulatory capital rules.

At July 1, 2012 and September 30, 2011, securities with a fair value of $27,016 and $31,320, respectively, were depressed greater than 20% of amortized cost, which represented less than 1% of the carrying values of all investments. The improvement in unrealized loss positions from September 30, 2011 is primarily due to two factors: (i) securities at depressed prices were sold over the past nine months, reducing the size of holdings at an unrealized loss position and (ii) improving risk sentiment has lifted the market prices of investment grade bonds. Based upon FGL s current evaluation of these securities in accordance with its impairment policy and its intent to retain these investments for a period of time sufficient to allow for recovery in value, FGL has determined that these securities are not other-than-temporarily impaired.

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 at July 1, 2012 and July 3, 2011, for which a portion of the other-than-temporary impairment was recognized in AOCI:

	Three Month Period Ended		Nine Month Period Ended	
	July 1, 2012	**July 3, 2011**	**July 1, 2012**	**July 3, 2011**
Beginning balance	$ 2,569	$	$ 667	$
Increases attributable to credit losses on securities:				
Other-than-temporary impairment was previously recognized	112		112	
Other-than-temporary impairment was not previously recognized		395	1,902	395
Ending balance	$ 2,681	$ 395	$ 2,681	$ 395

For the three and nine months ended July 1, 2012, FGL recognized impairment losses in operations totaling $2,487 and $19,787, respectively, for investments which experienced other-than-temporary impairments and had an amortized cost of $101,887 and a fair value of $80,570 at July 1, 2012. For the three and nine month periods ended July 3, 2011, FGL recognized impairment losses in operations totaling $1,259 respectively, for investments which experienced other-than-temporary impairments and had an amortized cost of $12,140 and a fair value of $10,737 at July 3, 2011. Details underlying write-downs taken as a result of other-than-temporary impairments that were recognized in earnings and included in net realized gains on securities were as follows:

	Three Month Period Ended		Nine Month Period Ended	
	July 1, 2012	**July 3, 2011**	**July 1, 2012**	**July 3, 2011**
Other-than-temporary impairments recognized in net income:				
Corporates	$ 1,538	$	$ 2,234	$
Non-agency residential mortgage-backed securities	828	1,259	6,901	1,259
Hybrids			9,688	
Other invested assets	121		964	
Total other-than-temporary impairments	$ 2,487	$ 1,259	$ 19,787	$ 1,259

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Net Investment Income

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

	Three Month Period Ended		Nine Month Period Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Fixed maturity available-for-sale securities	$ 172,741	$ 174,181	$ 530,433	$ 174,181
Equity available-for-sale securities	4,817	5,641	10,839	5,641
Policy loans	125	800	550	800
Invested cash and short-term investments	2,105	72	3,458	72
Other investments	2,409	(291)	2,976	(291)
Gross investment income	182,197	180,403	548,256	180,403
External investment expense	(2,900)	(3,518)	(9,199)	(3,518)
Net investment income	$ 179,297	$ 176,885	$ 539,057	$ 176,885

Net Investment Gains (Losses)

Details underlying Net investment gains (losses) reported on the accompanying Condensed Consolidated Statements of Operations were as follows:

	Three Month Period Ended		Nine Month Period Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Net realized gains on fixed maturity available-for-sale securities	$ 37,895	$ 15,137	$ 172,188	$ 15,137
Realized gains (losses) on equity securities	417	(105)	783	(105)
Net realized gains on securities	38,312	15,032	172,971	15,032
Realized losses on certain derivative instruments	(26,295)	(3,258)	(32,001)	(3,258)
Unrealized gains (losses) on certain derivative instruments	(24,839)	(10,546)	114,649	(10,546)
Change in fair value of derivatives	(51,134)	(13,804)	82,648	(13,804)
Realized losses on other invested assests	(84)		(1,003)	
Net investment gains (losses)	$ (12,906)	$ 1,228	$ 254,616	$ 1,228

Additional detail regarding the net investment gains (losses) on securities is as follows:

	Three Month Period Ended		Nine Month Period Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Total other-than-temporary impairments	$ (2,406)	$ (1,403)	$ (21,317)	$ (1,403)
Less non-credit portion of other-than-temporary impairments included in other comprehensive income	81	(144)	(1,530)	(144)
Net other-than-temporary impairments	(2,487)	(1,259)	(19,787)	(1,259)
(Losses) gains on derivative instruments	(51,134)	(13,804)	82,648	(13,804)

Other realized investment gains	40,715	16,291	191,755	16,291
Net investment gains (losses)	$ (12,906)	$ 1,228	$ 254,616	$ 1,228

For the three and nine month periods ended July 1, 2012, principal repayments, calls, tenders and proceeds from the sale of fixed maturity available-for-sale securities, including assets transferred to Wilton Re as discussed in Note 9, totaled $1,216,158 and $4,366,308 gross gains on such sales totaled $49,469 and $211,908 and gross

losses totaled $9,208 and $20,897, respectively. For the three and nine month periods ended July 3, 2011, proceeds from the sale of available-for-sale securities totaled $461,506, gross gains on the sale of available-for-sale securities totaled $12,866 and gross losses totaled $1,815.

Underlying write-downs taken to fixed maturity available-for-sale securities as a result of other-than-temporary impairments that were recognized in earnings and included in net realized gains on available-for-sale securities above were $2,487 and $19,787 for the three and nine month periods ended July 1, 2012, respectively. For the three and nine month periods ended July 3, 2011, underlying write-downs taken to residential mortgage-backed securities investments as a result of other-than-temporary impairments that were recognized in net income and included in net realized gains on available-for-sale securities were $1,259.

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

	Nine Month Period Ended	
	July 1, 2012	**July 3, 2011**
Proceeds from investments sold, matured or repaid:		
Available-for-sale	$ 4,208,621	$ 648,243
Held-to-maturity	75,649	70,792
Trading (acquired for holding)	12,027	331,417
Derivatives and other	90,031	64,089
	$ 4,386,328	$ 1,114,541
Cost of investments acquired:		
Available-for-sale	$ (3,696,967)	$ (730,468)
Held-to-maturity	(34,758)	(52,682)
Trading	(22,924)	(433,810)
Derivatives and other	(105,964)	(37,527)
	$ (3,860,613)	$ (1,254,487)

Concentrations of Financial Instruments

As of July 1, 2012, FGL s most significant investment in one industry was FGL s investment securities in the banking industry with a fair value of $1,982,603 or 12.8% of the invested assets portfolio. FGL s holdings in this industry includes investments in 121 different issuers with the top ten investments accounting for 38% of the total holdings in this industry. As of July 1, 2012, FGL s exposure to sub-prime and Alternative-A residential mortgage-backed securities was $236,441 and $87,073 or 1.5% and 0.6% of FGL s invested assets, respectively.

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(4) Derivative Financial Instruments

Consumer Products and Other

The fair value of outstanding derivative contracts recorded in the Consumer Products and Other sections of the accompanying Condensed Consolidated Balance Sheets were as follows:

Asset Derivatives	**Classification**	**July 1, 2012**	**September 30, 2011**
Derivatives designated as hedging instruments:			
Commodity contracts	Receivables	$	$ 274
Foreign exchange contracts	Receivables	4,959	3,189
Foreign exchange contracts	Deferred charges and other assets	326	
Total asset derivatives designated as hedging instruments		5,285	3,463
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Receivables	271	
Total asset derivatives		$ 5,556	$ 3,463

Liability Derivatives	**Classification**	**July 1, 2012**	**September 30, 2011**
Derivatives designated as hedging instruments:			
Interest rate contracts	Accounts payable	$	$ 1,246
Interest rate contracts	Accrued and other current liabilities		708
Commodity contracts	Accounts payable	1,801	1,228
Commodity contracts	Other liabilities	892	4
Foreign exchange contracts	Accounts payable	753	2,698
Total liability derivatives designated as hedging instruments		3,446	5,884
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Accounts payable	1,780	10,945
Foreign exchange contracts	Other liabilities	1,504	12,036
Equity conversion feature of preferred stock	Equity conversion feature of preferred stock	199,360	75,350
Total liability derivatives		$ 206,090	$ 104,215

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 month periods ended July 1, 2012 and July 3, 2011:

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)		Location of Gain (Loss) Recognized in Income on Derivatives
Three Months	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	
Commodity contracts	$ (2,368)	$ (109)	$ (120)	$ 587	$ (6)	$ 16	Cost of goods sold
Interest rate contracts		(42)		(839)		(44)	Interest expense
Foreign exchange contracts	(395)	(11)	(129)	105			Net sales
Foreign exchange contracts	5,973	(5,011)	558	(4,346)			Cost of goods sold
Total	$ 3,210	$ (5,173)	$ 309	$ (4,493)	$ (6)	$ (28)	
Nine Months	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	
Commodity contracts	$ (1,989)	$ 1,764	$ (675)	$ 1,921	$ 8	$ 17	Cost of goods sold
Interest rate contracts	15	(102)	(864)	(2,527)		(294)	Interest expense
Foreign exchange contracts	(61)	216	(339)	(102)			Net sales
Foreign exchange contracts	2,426	(15,801)	(1,336)	(8,438)			Cost of goods sold
Total	$ 391	$ (13,923)	$ (3,214)	$ (9,146)	$ 8	$ (277)	

Fair Value Contracts and Other

For derivative instruments that are used to economically hedge the fair value of Spectrum Brands third party and intercompany foreign currency payments, commodity purchases and interest rate payments, and the equity conversion feature of the Company s Preferred Stock, the gain (loss) associated with the derivative contract is recognized in earnings in the period of change. During the three and nine month periods ended July 1, 2012 and July 3, 2011 the Company recognized the following gains (losses) on those derivatives:

Derivatives Not Designated as Hedging Instruments	Amount of Gain (Loss) Recognized in Income on Derivatives				Location of Gain (Loss) Recognized in Income on Derivatives
	Three Months		Nine Months		
	2012	**2011**	**2012**	**2011**	
Equity conversion feature of preferred stock	$ (125,540)	$ 5,960	$ (124,010)	$ 5,960	(Increase) decrease in fair value of equity conversion feature of preferred stock
Foreign exchange contracts	7,941	(7,578)	11,734	(17,468)	Other income (expense), net
Total	$ (117,599)	$ (1,618)	$ (112,276)	$ (11,508)	

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Additional Disclosures

Cash Flow Hedges

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 July 1, 2012, Spectrum Brands did not have any such interest swaps outstanding.

Spectrum Brands periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign currency denominated third party and intercompany sales or payments. These obligations generally require Spectrum Brands to exchange foreign currencies for U.S. Dollars, Euros, Pounds Sterling, Australian Dollars, Brazilian Reals, 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 sales or purchase price variance in Cost of goods sold . At July 1, 2012, Spectrum Brands had a series of foreign exchange derivative contracts outstanding through June 2013 with a contract value of $120,804. The derivative net gain on these contracts recorded in AOCI at July 1, 2012 was $1,880, net of tax expense of $1,262 and noncontrolling interest of $1,389. At July 1, 2012, the portion of derivative net losses estimated to be reclassified from AOCI into earnings over the next twelve months is $1,762 net of tax and noncontrolling interest.

Spectrum Brands is exposed to risk from fluctuating prices for raw materials, specifically zinc used in its manufacturing processes. Spectrum Brands hedges a portion of the risk associated with 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 July 1, 2012, Spectrum Brands had a series of such swap contracts outstanding through July 2014 for 16 tons of raw materials with a contract value of $31,665. The derivative net loss on these contracts recorded in AOCI at July 1, 2012 was $1,279, net of tax benefit of $428 and noncontrolling interest of $946. At July 1, 2012, the portion of derivative net losses estimated to be reclassified from AOCI into earnings over the next twelve months is $850, net of tax and noncontrolling interest.

Fair Value Contracts

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, Euros or Australian Dollars. These foreign exchange contracts are economic 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 July 1, 2012 and September 30, 2011, Spectrum Brands had $189,538 and $265,974, respectively, of notional value for such foreign exchange derivative contracts outstanding.

Spectrum Brands is exposed to economic risk from foreign currencies, including firm commitments for purchases of materials denominated in South African Rand. Periodically, Spectrum Brands economically hedges a portion of the risk associated with these purchases through forward and swap foreign exchange contracts. These contracts are designated as fair value hedges. The hedges effectively fix the foreign exchange in U.S. Dollars on a specified amount of Rand to a future payment date. The unrealized change in fair value of the hedge contracts

is recorded in earnings and as a hedge asset or liability, as applicable. Derivative gains or losses are realized as the hedged purchases of materials affects earnings. At July 1, 2012, Spectrum Brands had $2,249 of such foreign exchange derivative contracts outstanding (none as of September 30, 2011).

Credit Risk

Spectrum Brands is exposed to the risk of default by the counterparties with which Spectrum Brands transacts and generally does not require collateral or other security to support financial instruments subject to credit risk. Spectrum Brands monitors counterparty credit risk on an individual basis by periodically assessing each such counterparty s credit rating exposure. The maximum loss due to credit risk equals the fair value of the gross asset derivatives that are concentrated with certain domestic and foreign financial institution counterparties. Spectrum Brands considers these exposures when measuring its credit reserve on its derivative assets, which was $26 and $18 at July 1, 2012 and September 30, 2011, respectively.

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 July 1, 2012 and September 30, 2011, Spectrum Brands had posted cash collateral of $1,717 and $418, respectively, related to such liability positions. In addition, at September 30, 2011, Spectrum Brands had posted standby letters of credit of $2,000 (none at July 1, 2012) related to such liability positions. The cash collateral is included in Receivables, net within the accompanying Condensed Consolidated Balance Sheet.

Insurance and Financial Services

FGL recognizes all derivative instruments as assets or liabilities in the Condensed Consolidated Balance Sheet at fair value and any changes in the fair value of the derivatives are recognized immediately in the Condensed Consolidated Statements of Operations. The fair value of derivative instruments, including derivative instruments embedded in Fixed Indexed Annuity (FIA) contracts, is as follows:

	July 1, 2012	September 30, 2011
Assets:		
Derivative investments:		
Call options	$ 156,919	$ 52,335
Futures contracts	3,646	
	$ 160,565	$ 52,335
Liabilities:		
Contractholder funds:		
FIA embedded derivative	$ 1,486,465	$ 1,396,340
Other liabilities:		
Futures contracts		3,828
Available-for-sale embedded derivative		400
	$ 1,486,465	$ 1,400,568

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The change in fair value of derivative instruments included in the Condensed Consolidated Statements of Operations is as follows:

	Three Month Period Ended		Nine Month Period Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Revenues:				
Net investment gains (losses):				
Call options	$ (44,557)	$ (15,400)	$ 48,722	$ (15,400)
Futures contracts	(6,577)	1,596	33,926	1,596
	(51,134)	(13,804)	82,648	(13,804)
Net investment income:				
Available-for-sale embedded derivatives	376	8	400	8
	$ (50,758)	$ (13,796)	$ 83,048	$ (13,796)
Benefits and other changes in policy reserves:				
FIA embedded derivatives	$ (10,338)	$ (21,802)	$ 90,125	$ (21,802)

Additional Disclosures

FIA Contracts

FGL has FIA contracts that permit the holder to elect an interest rate return or an equity index linked component, where interest credited to the contracts is linked to the performance of various equity indices, primarily the Standard and Poor s (S&P) 500 Index. This feature represents an embedded derivative under US GAAP. The FIA embedded derivative is valued at fair value and included in the liability for contractholder funds in the accompanying Condensed Consolidated Balance Sheets with changes in fair value included as a component of benefits and other changes in policy reserves in the Condensed Consolidated Statements of Operations.

FGL purchases derivatives consisting of a combination of call options and futures contracts on the applicable market indices to fund the index credits due to FIA contractholders. The call options are one, two and three year options purchased to match the funding requirements of the underlying policies. On the respective anniversary dates of the index policies, the index used to compute the interest credit is reset and FGL purchases new one, two or three year call options to fund the next index credit. FGL manages the cost of these purchases through the terms of its FIA contracts, which permit FGL to change caps or participation rates, subject to guaranteed minimums on each contract s anniversary date. The change in the fair value of the call options and futures contracts is generally designed to offset the portion of the change in the fair value of the FIA embedded derivative related to index performance. The call options and futures contracts are marked to fair value with the change in fair value included as a component of Net investment gains (losses) . The change in fair value of the call options and futures contracts includes the gains and losses recognized at the expiration of the instrument term or upon early termination and the changes in fair value of open positions.

Other market exposures are hedged periodically depending on market conditions and FGL s risk tolerance. FGL s FIA hedging strategy economically hedges the equity returns and exposes FGL to the risk that unhedged market exposures result in divergence between changes in the fair value of the liabilities and the hedging assets. FGL 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 FGL s risk tolerance change.

Credit Risk

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.

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

		July 1, 2012		September 30, 2011	
Counterparty	Credit Rating (Moody s/S&P)	Notional Amount	Fair Value	Notional Amount	Fair Value
Bank of America	Baa2/A-	$ 1,910,817	$ 49,687	$ 1,692,142	$ 14,637
Morgan Stanley	Baa1/A-	1,784,389	42,854	1,629,247	15,373
Deutsche Bank	A2/A+	1,570,297	40,107	1,463,596	11,402
Royal Bank of Scotland	Baa1/A-	239,175	11,580		
Barclay s Bank	A2/A+	139,534	2,436	385,189	4,105
Nomura	Baa2/A-	107,000	9,897	107,000	4,033
Credit Suisse	A2/A	20,000	358	327,095	2,785
		$ 5,771,212	$ 156,919	$ 5,604,269	$ 52,335

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 July 1, 2012 and September 30, 2011, no collateral was posted by FGL s counterparties as they did not meet the net exposure thresholds. 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 $156,919 and $52,335 at July 1, 2012 and September 30, 2011, respectively.

FGL held 2,140 and 2,458 futures contracts at July 1, 2012 and September 30, 2011, respectively. The fair value of 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 Insurance and Financial Services sections of the Condensed Consolidated Balance Sheets. The amount of collateral held by the counterparties for such contracts was $7,366 and $9,820 at July 1, 2012 and September 30, 2011, respectively.

(5) Fair Value of Financial Instruments

The Company s measurement of fair value is based on assumptions used by market participants in pricing the asset or liability, which may include inherent risk, restrictions on the sale or use of an asset or non-performance risk, which may include the Company s own credit risk. The Company s estimate of an exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability (exit price) in the principal market, or the most advantageous market in the absence of a principal market, for that asset or liability, as opposed to the price that would be paid to acquire the asset or receive a liability (entry price). The Company categorizes financial instruments carried at fair value into a three-level fair value hierarchy, based on the priority of inputs to the respective valuation technique. The three-level hierarchy for fair value measurement is defined as follows:

Level 1 Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Company s best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment s level within the fair value hierarchy is based on the lower level of input that is significant to the fair value measurement. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

When a determination is made to classify an asset or liability within Level 3 of the fair value hierarchy, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement. Because certain securities trade in less liquid or illiquid markets with limited or no pricing information, the determination of fair value for these securities is inherently more difficult. However, Level 3 fair value investments may include, in addition to the unobservable or Level 3 inputs, observable components, which are components that are actively quoted or can be validated to market-based sources.

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The carrying amounts and estimated fair values of the Company s consolidated financial instruments for which the disclosure of fair values is required, including financial assets and liabilities measured and carried at fair value on a recurring basis, are summarized according to the hierarchy previously described as follows:

	July 1, 2012				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Consumer Products and Other					
Cash and cash equivalents	$ 262,261	$	$	$ 262,261	$ 262,261
Contingent purchase price reduction receivable			41,000	41,000	41,000
Short-term investments (including related interest receivable of $8)					
Equity securities trading	162,518			162,518	162,518
Fixed maturity securities held-to-maturity		35,005		35,005	35,006
Fixed maturity securities trading		6,725		6,725	6,725
Derivatives:					
Foreign exchange forward agreements		5,556		5,556	5,556
Insurance and Financial Services					
Cash and cash equivalents	1,560,481	10,084		1,570,565	1,570,565
Fixed maturity securities, available-for-sale:					
Asset-backed securities		63,610	759,076	822,686	822,686
Commercial mortgage-backed securities		538,523		538,523	538,523
Corporates		10,831,535	147,243	10,978,778	10,978,778
Hybrids		621,675	5,181	626,856	626,856
Municipals		1,246,045	55	1,246,100	1,246,100
Agency residential mortgage-backed securities		168,026		168,026	168,026
Non-agency residential mortgage-backed securities		549,212	615	549,827	549,827
U.S. Government	139,156			139,156	139,156
Equity securities available-for-sale		242,264		242,264	242,264
Derivative financial instruments		160,565		160,565	160,565
Asset-backed loans and other invested assets			92,424	92,424	92,424
Total financial assets	$ 2,124,416	$ 14,478,825	$ 1,045,594	$ 17,648,835	$ 17,648,836
Liabilities					
Consumer Products and Other					
Total debt	$ 510,000	$ 1,957,870	$	$ 2,467,870	$ 2,324,655
Derivatives:					
Foreign exchange forward agreements		4,037		4,037	4,037
Commodity swap and option agreements		2,693		2,693	2,693
Equity conversion feature of preferred stock			199,360	199,360	199,360
Redeemable preferred stock, excluding equity conversion feature			366,600	366,600	313,450
Insurance and Financial Services					
Derivatives:					
FIA embedded derivatives, included in contractholder funds			1,486,465	1,486,465	1,486,465
Investment contracts, included in contractholder funds			12,339,474	12,339,474	13,799,351
Total financial liabilities	$ 510,000	$ 1,964,600	$ 14,391,899	$ 16,866,499	$ 18,130,011

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	September 30, 2011				
	Level 1	Level 2	Level 3	Fair Value	Carrying Amount
Assets					
Consumer Products and Other					
Cash and cash equivalents	$ 321,352	$	$	$ 321,352	$ 321,352
Short-term investments (including related interest receivable of $9)					
Equity securities trading	238,062	24,023		262,085	262,085
Fixed maturity securities held to maturity		75,899		75,899	75,897
Fixed maturity securities trading		12,665		12,665	12,665
Derivatives:					
Foreign exchange forward agreements		3,189		3,189	3,189
Commodity swap and option agreements		274		274	274
Insurance and Financial Services					
Cash and cash equivalents	813,239	2,768		816,007	816,007
Fixed maturity securities, available-for-sale:					
Asset-backed securities		125,966	374,518	500,484	500,484
Commercial mortgage-backed securities		565,577		565,577	565,577
Corporates		11,696,090	159,684	11,855,774	11,855,774
Hybrids		654,084	5,205	659,289	659,289
Municipals		936,484		936,484	936,484
Agency residential mortgage-backed securities		218,713	3,312	222,025	222,025
Non-agency residential mortgage-backed securities		440,758	3,759	444,517	444,517
U.S. Government	183,324			183,324	183,324
Equity securities available-for-sale		287,043		287,043	287,043
Derivative financial instruments		52,335		52,335	52,335
Other invested assets			44,279	44,279	44,279
Total financial assets	$ 1,555,977	$ 15,095,868	$ 590,757	$ 17,242,602	$ 17,242,600
Liabilities					
Consumer Products and Other					
Total debt	$ 500,000	$ 1,635,528	$	$ 2,135,528	$ 2,048,780
Derivatives:					
Foreign exchange forward agreements		25,679		25,679	25,679
Interest rate swap agreements		1,954		1,954	1,954
Commodity swap and option agreements		1,232		1,232	1,232
Equity conversion feature of preferred stock			75,350	75,350	75,350
Redeemable preferred stock, excluding equity conversion feature			337,060	337,060	292,437
Insurance and Financial Services					
Derivatives:					
FIA embedded derivatives, included in contractholder funds			1,396,340	1,396,340	1,396,340
Futures contracts		3,828		3,828	3,828
Available-for-sale embedded derivatives			400	400	400
Investment contracts, included in contractholder funds			11,992,013	11,992,013	13,153,630
Note payable		95,000		95,000	95,000
Total financial liabilities	$ 500,000	$ 1,763,221	$ 13,801,163	$ 16,064,384	$ 17,094,630

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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.

The fair values of cash equivalents, short-term investments and debt set forth above are generally based on quoted or observed market prices. Investment contracts include deferred annuities, FIAs, universal life insurance (UL) and immediate annuities. The fair values of deferred annuity, FIAs, and UL 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 July 1, 2012 and September 30, 2011, 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 FGL s note payable at September 30, 2011 approximated its carrying value as it was settled or retired at such carrying value in October 2011.

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

FGL measures the fair value of its securities based on assumptions used by market participants in pricing the security. The most appropriate valuation methodology is selected based on the specific characteristics of the fixed maturity or equity security, and FGL will then consistently apply the valuation methodology to measure the security s fair value. FGL s fair value measurement is based on a market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable securities. Sources of inputs to the market approach include a third-party pricing service, independent broker quotations or pricing matrices. FGL uses observable and unobservable inputs in its valuation methodologies. Observable inputs include benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. In addition, market indicators, industry and economic events are monitored and further market data will be acquired when certain thresholds are met. For certain security types, additional inputs may be used, or some of the inputs described above may not be applicable. For broker-quoted only securities, quotes from market makers or broker-dealers are obtained from sources recognized to be market participants. 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 July 1, 2012 and September 30, 2011. 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.

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 cancelled the options, entered into offsetting positions, or exercised the options. The fair value of futures contracts represent the cumulative unsettled variation margin (open trade equity net of cash settlements). Fair values for these instruments are determined externally by an independent actuarial firm using market observable inputs, including interest rates, yield curve volatilities, and other factors. Credit risk related to the counterparty is considered when estimating the fair values of these derivatives.

The fair values of the embedded derivatives in FGL s FIA products are derived using market indices, pricing assumptions and historical data.

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Quantitative information regarding significant unobservable inputs used for recurring Level 3 fair value measurements of financial instruments carried at fair value, were as follows:

	Fair Value at July 1, 2012	Valuation technique	Unobservable input(s)	Range (Weighted average)
Assets				
Contingent purchase price reduction receivable	$ 41,000	Discounted cash flow	Probability of collection	88% - 96% (92%)
			Expected term	1 year
			Discount rate	0.92%
			Credit insurance risk premium	11.7%
Asset-backed securities	759,076	Broker-quoted	Offered quotes	76.77% - 100.53% (94.39%)
Corporates	127,572	Broker-quoted	Offered quotes	0% - 121.15% (78.73%)
	19,671	Market pricing	Quoted prices	101.07% - 150.08% (105.15%)
Hybrids	5,181	Market pricing	Quoted prices	103.63%
Municipals	55	Broker-quoted	Offered quotes	121.36% - 121.36% (121.36%)
Non-agency residential-mortgage-backed securities	615	Broker-quoted	Offered quotes	34.34% - 34.34% (34.34%)
Total	$ 953,170			
Liabilities				
FIA embedded derivatives, included in contractholder funds	$ 1,486,465	Discounted cash flow	Market value of option	0% - 35.40% (2.91%)
			SWAP rates	0.97% - 1.79% (1.37%)
			Mortality multiplier	70% - 70% (70%)
			Surrender rates	2% - 50% (7%)
			Non-performance spread	0.25% - 0.25% (0.25%)
Equity conversion feature of preferred stock	199,360	Monte Carlo simulation / Option model	Annualized volatility of equity	40%
			Discount yield	12.0% - 12.7% (12.2%)
			Non-cash accretion rate	0% - 2%
			Calibration adjustment	15% - 17% (15.5%)
Total	$ 1,685,825			

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 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 is based on the 1983 annuity table 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

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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 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 month periods ended July 1, 2012 and July 3, 2011. 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 Month Period Ended July 1, 2012					
		Total Gains (Losses)				
	Balance at Beginning of Period	Included in Earnings	Included in AOCI	Net Purchases, Sales & Settlements	Net Transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets						
Contingent purchase price reduction receivable	$ 41,000	$	$	$	$	$ 41,000
Fixed maturity securities, available-for-sale:						
Asset-backed securities	502,938		919	251,545	3,674	759,076
Corporates	120,180	184	(3,662)	(9,747)	40,288	147,243
Hybrids	5,100		81			5,181
Municipals	10,308				(10,253)	55
Agency residential mortgage-backed securities	3,330				(3,330)	
Non-agency residential mortgage-backed securities	1,217	(126)	87	(563)		615
Total assets at Level 3 fair value	$ 684,073	$ 58	$ (2,575)	$ 241,235	$ 30,379	$ 953,170
Liabilities						
FIA embedded derivatives, included in contractholder funds	$ (1,496,803)	$ 10,338	$	$	$	$ (1,486,465)
Available-for-sale embedded derivatives	(376)	376				
Equity conversion feature of preferred stock	(73,820)	(125,540)				(199,360)
Total liabilities at Level 3 fair value	$ (1,570,999)	$ (114,826)	$	$	$	$ (1,685,825)

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	Nine Month Period Ended July 1, 2012 Total Gains (Losses)					
	Balance at Beginning of Period	Included in Earnings	Included in AOCI	Net Purchases, Sales & Settlements	Net Transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets						
Contingent purchase price reduction receivable	$	$ 41,000	$	$	$	$ 41,000
Fixed maturity securities available-for-sale:						
Asset-backed securities	374,518		6,985	363,076	14,497	759,076
Corporates	159,684	207	(5,927)	(36,664)	29,943	147,243
Hybrids	5,205		(24)			5,181
Municipals		(2)	72	10,177	(10,192)	55
Agency residential mortgage-backed securities	3,312		18		(3,330)	
Non-agency residential mortgage-backed securities	3,759	(126)	4	(777)	(2,245)	615
Total assets at Level 3 fair value	$ 546,478	$ 41,079	$ 1,128	$ 335,812	$ 28,673	$ 953,170
Liabilities						
FIA embedded derivatives, included in contractholder funds	$ (1,396,340)	$ (90,125)	$	$	$	$ (1,486,465)
Available-for-sale embedded derivatives	(400)	400				
Equity conversion feature of preferred stock	(75,350)	(124,010)				(199,360)
Total liabilities at Level 3 fair value	$ (1,472,090)	$ (213,735)	$	$	$	$ (1,685,825)

(a) The net transfers in and out of Level 3 during the three and nine month periods ended July 1, 2012 were exclusively to or from Level 2.

	Three and Nine Month Periods Ended July 3, 2011 Total Gains (Losses)					
	Balance at FGL Acquisition Date	Included in Earnings	Included in AOCI	Net Purchases, Sales & Settlements	Net Transfer In (Out) of Level 3 (a)	Balance at End of Period
Assets						
Fixed maturity securities, available-for-sale:						
Asset-backed securities	$ 399,967	$	$ 6,385	$ (8,128)	$ (10,206)	$ 388,018
Corporates	188,439		10,722	(2,635)		196,526
Hybrids	8,305		(38)		(3,038)	5,229
Agency residential mortgage-backed securities	3,271		(8)			3,263
Non-agency residential mortgage-backed securities	18,519		2,351	(1,119)		19,751
Total assets at Level 3 fair value	$ 618,501	$	$ 19,412	$ (11,882)	$ (13,244)	$ 612,787
Liabilities						
FIA embedded derivatives, included in contractholder funds	$ (1,466,308)	$ 21,802	$	$	$	$ (1,444,506)
Available-for-sale embedded derivatives	(419)	8				(411)
Equity conversion feature of preferred stock		5,960		(85,700)		(79,740)
Total liabilities at Level 3 fair value	$ (1,466,727)	$ 27,770	$	$ (85,700)	$	$ (1,524,657)

(a) The net transfers in and out of Level 3 during the three and nine month periods ended July 3, 2011 were exclusively to or from Level 2.

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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 month periods ended July 1, 2012 and July 3, 2011.

During the three and nine month periods ended July 1, 2012, primary market issuance and secondary market activity for certain non-agency residential mortgage-backed securities and corporate securities 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 July 1, 2012. Accordingly, FGL s assessment resulted in a net transfer out of Level 3 of $2,245 related to non-agency residential mortgage-backed securities and corporate securities during the nine months ended July 1, 2012. There were also net transfers in to Level 3 of $30,379 and $30,918 related to asset-backed securities, corporates, municipal and agency residential mortgage-backed securities during the three and nine months ended July 1, 2012, respectively.

The following tables present the gross components of purchases, sales, and settlements, net, of Level 3 financial instruments for the three and nine month periods ended July 1, 2012 and July 3, 2011. There were no issuances during these periods.

	Three Month Period Ended July 1, 2012			
	Purchases	**Sales**	**Settlements**	**Net Purchases, Sales & Settlements**
Assets				
Fixed maturity, securities available-for-sale:				
Asset-backed securities	$ 262,536	$	$ (10,991)	$ 251,545
Corporates		(7,713)	(2,034)	(9,747)
Non-agency residential mortgage-backed securities		(475)	(88)	(563)
Total assets at Level 3 fair value	$ 262,536	$ (8,188)	$ (13,113)	$ 241,235

	Nine Month Period Ended July 1, 2012			
	Purchases	**Sales**	**Settlements**	**Net Purchases, Sales & Settlements**
Assets				
Fixed maturity, securities available-for-sale:				
Asset-backed securities	$ 394,887	$	$ (31,811)	$ 363,076
Corporates	1,326	(24,398)	(13,592)	(36,664)
Municipals	10,197		(20)	10,177
Non-agency residential mortgage-backed securities		(475)	(302)	(777)
Total assets at Level 3 fair value	$ 406,410	$ (24,873)	$ (45,725)	$ 335,812

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	Three and Nine Month Periods Ended July 3, 2011			
	Purchases	Sales	Settlements	Net Purchases, Sales & Settlements
Assets				
Fixed maturity, securities available-for-sale:				
Asset-backed securities	$	$	$ (8,128)	$ (8,128)
Corporates			(2,635)	(2,635)
Municipals				
Non-agency residential mortgage-backed securities			(1,119)	(1,119)
Total assets at Level 3 fair value	$	$	$ (11,882)	$ (11,882)
Liabilities				
Equity conversion option of preferred stock	$	$ (85,700)	$	$ (85,700)

(6) Goodwill and Intangibles

Consumer Products and Other

A summary of the changes in the carrying amounts of goodwill and intangible assets of the consumer products segment is as follows:

	Goodwill	Intangible Assets Indefinite Lived	Intangible Assets Amortizable	Total
Balance at September 30, 2011	$ 610,338	$ 826,795	$ 857,114	$ 1,683,909
Business acquisitions (Note 14)	85,875	22,000	82,118	104,118
Amortization during period			(46,550)	(46,550)
Effect of translation	(8,168)	(13,341)	(11,159)	(24,500)
Balance at July 1, 2012	$ 688,045	$ 835,454	$ 881,523	$ 1,716,977

Intangible assets are recorded at cost or at fair value if acquired in a purchase business combination. Customer relationships, proprietary technology intangibles and certain trade names are amortized, using the straight-line method, over their estimated useful lives of approximately four to twenty years. Excess of cost over fair value of net assets acquired (goodwill) and indefinite lived trade name intangibles are not amortized.

Goodwill and indefinite lived intangible assets are tested for impairment at least annually at Spectrum Brands August financial period end, and more frequently if an event or circumstance indicates that an impairment loss may have been incurred between annual impairment tests.

Intangible assets subject to amortization include customer relationships, certain trade names and proprietary technology, which are summarized as follows:

	July 1, 2012			September 30, 2011			
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net	Amortizable Life
Customer relationships	$ 789,465	$ 102,102	$ 687,363	$ 738,937	$ 73,373	$ 665,564	15-20 years
Trade names	149,700	26,108	123,592	149,700	16,320	133,380	4-12 years
Technology assets	90,924	20,356	70,568	71,805	13,635	58,170	4-17 years
	$ 1,030,089	$ 148,566	$ 881,523	$ 960,442	$ 103,328	$ 857,114	

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Amortization expense is as follows:

	Three Month Period Ended		Nine Month Period Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Customer relationships	$ 10,181	$ 9,650	$ 30,041	$ 28,708
Trade names	3,509	3,140	9,788	9,419
Technology assets	2,411	1,649	6,721	4,946
	$ 16,101	$ 14,439	$ 46,550	$ 43,073

The Company estimates annual amortization expense of intangible assets of the consumer products segment for the next five fiscal years will approximate $62,600 per year.

Insurance and Financial Services

Intangible assets of the Company s insurance segment include VOBA and DAC. Information regarding VOBA and DAC, including deferred sales inducements (DSI), is as follows:

	VOBA	DAC	Total
Balance at September 30, 2011	$ 419,060	$ 38,107	$ 457,167
Deferrals		157,620	157,620
Less: Components of amortization:			
Periodic amortization	(121,696)	(13,837)	(135,533)
Interest	21,534	1,448	22,982
Unlocking	(1,106)	1,678	572
Add: Adjustment for change in unrealized investment gains, net	(74,230)	(17,699)	(91,929)
Balance at July 1, 2012	$ 243,562	$ 167,317	$ 410,879

Amortization of VOBA and DAC is based on the amount of gross margins or profits recognized, including investment gains and losses. The adjustment for unrealized net investment gains represents the amount of VOBA and DAC 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 July 1, 2012 and September 30, 2011, the VOBA balance included cumulative adjustments for net unrealized investment gains of $(244,347) and $(170,117), respectively, and the DAC balances included cumulative adjustments for net unrealized investment gains of $(19,845) and $(2,146), respectively.

The above DAC balances include $8,500 and $5,048 of DSI, net of shadow adjustments, as of July 1, 2012 and September 30, 2011, respectively.

The weighted average amortization period for VOBA and DAC are approximately 5.0 and 6.0 years, respectively. Estimated amortization expense for VOBA and DAC in future fiscal periods is as follows:

	Estimated Amortization Expense	
For the fiscal periods ending September 30,	**VOBA**	**DAC**
2012	$ 14,705	$ 3,879
2013	69,708	16,651
2014	67,514	20,594
2015	58,789	20,555
2016	51,918	19,419

Thereafter	225,275	106,064

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(7) Debt

The Company s consolidated debt consists of the following:

	July 1, 2012		September 30, 2011	
	Amount	Rate	Amount	Rate
HGI:				
10.625% Senior Secured Notes, due November 15, 2015	$ 500,000	10.625%	$ 500,000	10.625%
Spectrum Brands:				
Term loan, due June 17, 2016	521,146	5.1%	525,237	5.1%
9.5% Senior Secured Notes, due June 15, 2018	950,000	9.5%	750,000	9.5%
6.75% Senior Notes, due March 15, 2020	300,000	6.75%		
12% Senior Subordinated Toggle Notes due 2019			245,031	12.0%
ABL Revolving Credit Facility, expiring May 3, 2016	2,500	4.0%		2.5%
Other notes and obligations	24,275	11.0%	19,333	10.5%
Capitalized lease obligations	25,294	6.5%	24,911	6.2%
	2,323,215		2,064,512	
Original issuance premiums (discounts) on debt, net	1,440		(15,732)	
Less current maturities	28,251		16,090	
Long-term debt Consumer Products and Other	$ 2,296,404		$ 2,032,690	
FGL:				
Note payable Insurance and Financial Services	$		$ 95,000	

Spectrum Brands

In March 2012, Spectrum Brands issued $300,000 aggregate principal amount of its 6.75% Senior Notes due 2020 (the 6.75% Notes) and used part of the proceeds of the offering to accept for purchase $231,509 of its 12% Senior Subordinated Toggle Notes due 2019 (the 12% Notes) pursuant to a tender offer (the Tender Offer) for the 12% Notes. Also in March 2012, Spectrum Brands deposited sufficient funds in trust with the trustee under the indenture governing the 12% Notes to satisfy and discharge the $13,522 of 12% Notes that remained outstanding (the Satisfaction and Discharge) following completion of the Tender Offer.

As a result of the Satisfaction and Discharge, the trustee became the primary obligor for payment of the remaining 12% Notes on or about the call date of August 28, 2012. Spectrum Brands has a contingent obligation for payment of the 12% Notes were the trustee to default on its payment obligations. Spectrum Brands believes the risk of such default is remote and therefore has not recorded a related liability.

The indenture governing the 6.75% Notes (the 2020 Indenture) contains customary covenants that limit, among other things, the incurrence of additional indebtedness, payment of dividends on or redemption or repurchase of equity interests, the making of certain investments, expansion into unrelated businesses, creation of liens on assets, merger or consolidation with another company, transfer or sale of all or substantially all assets, and transactions with affiliates.

In addition, the 2020 Indenture provides for customary events of default, including failure to make required payments, failure to comply with certain agreements or covenants, failure to make payments when due or on acceleration of certain other indebtedness, and certain events of bankruptcy and insolvency. Events of default under the 2020 Indenture arising from certain events of bankruptcy or insolvency will automatically cause the acceleration of the amounts due under the 6.75% Notes. If any other event of default under the 2020 Indenture occurs and is continuing, the trustee for the 2020 Indenture or the registered holders of at least 25% in the then aggregate outstanding principal amount of the 6.75% Notes may declare the acceleration of the amounts due under those notes.

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In December 2011 and June 2012, Spectrum Brands amended its term loan (the Term Loan). As a result, the aggregate incremental amount by which Spectrum Brands, subject to compliance with financial covenants and certain other conditions, may increase the amount of the commitment under the Term Loan has been increased from $100,000 to $250,000. Certain covenants in respect to indebtedness, liens and interest coverage were also amended to provide for dollar limits more favorable to Spectrum Brands and, subject to compliance with financial covenants and certain other conditions, to allow for the incurrence of incremental unsecured indebtedness.

In November 2011, Spectrum Brands completed the offering of $200,000 aggregate principal amount of 9.5% Senior Secured Notes (the 9.5% Notes) at a price of 108.5% of the par value; these notes are in addition to the $750,000 aggregate principal amount of 9.5% Notes that were already outstanding. The additional notes are guaranteed by Spectrum Brands existing and future domestic restricted subsidiaries and secured by liens on substantially all of their assets.

In May 2012, Spectrum Brands amended its revolving credit facility (the ABL Revolving Credit Facility). As a result, the maturity date was extended from April 21, 2016 to May 3, 2016. The amended facility carries an interest rate at the option of Spectrum Brands, which is subject to change based on availability under the facility, of either: (a) the base rate plus currently .75% per annum or (b) the reserve-adjusted LIBOR rate plus currently 1.75% per annum. No principal amortizations are required with respect to the ABL Revolving Credit Facility. Pursuant to the credit and security agreement, the obligations under the ABL credit agreement are secured by certain current assets of Spectrum Brands, including, but not limited to, deposit accounts, trade receivables and inventory.

As a result of borrowings and payments under the ABL Revolving Credit Facility at July 1, 2012, Spectrum Brands had aggregate borrowing availability of approximately $194,909, net of lender reserves of $27,471 and outstanding letters of credit of $26,730.

In connection with the 6.75% Note offering, the 9.5% Note offering and the amendments to the Term Loan and ABL Revolving Credit Facility, Spectrum Brands recorded $11,163 of fees during the nine month period ended July 1, 2012. The fees are classified as Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheet as of July 1, 2012 and are being amortized to interest expense utilizing the effective interest method over the respective terms of the debt. In addition, Spectrum Brands recorded charges to Interest expense aggregating $894 and $28,892 during the three and nine month periods ended July 1, 2012, respectively, principally for cash fees and expenses relating to the 12% Notes, and including $382 and $2,479, respectively, of non-cash charges for the write-off of unamortized debt issuance costs and discount/premium.

FGL

The $95,000 note payable of FGL was settled at face value (without the payment of interest) in October 2011 in connection with the closing of the Raven springing amendment and the replacement of the reserve facility discussed in Note 9.

(8) Defined Benefit Plans

HGI

HGI has a noncontributory defined benefit pension plan (the HGI Pension Plan) covering certain former U.S. employees. During 2006, the HGI Pension Plan was frozen which caused all existing participants to become fully vested in their benefits.

Additionally, HGI has an unfunded supplemental pension plan (the Supplemental Plan) which provides supplemental retirement payments to certain former senior executives of HGI. The amounts of such payments equal the difference between the amounts received under the HGI Pension Plan and the amounts that would

otherwise be received if HGI Pension Plan payments were not reduced as the result of the limitations upon compensation and benefits imposed by Federal law. Effective December 1994, the Supplemental Plan was frozen.

Spectrum Brands

Spectrum Brands has various defined benefit pension plans (the Spectrum Brands Pension Plans) covering some of its employees in the United States and certain employees in other countries, primarily the United Kingdom and Germany. The Spectrum Brands Pension Plans generally provide benefits of stated amounts for each year of service. Spectrum Brands funds its U.S. pension plans in accordance with the requirements of the defined benefit pension plans and, where applicable, in amounts sufficient to satisfy the minimum funding requirements of applicable laws. Additionally, in compliance with Spectrum Brands funding policy, annual contributions to non-U.S. defined benefit plans are equal to the actuarial recommendations or statutory requirements in the respective countries.

Spectrum Brands also sponsors or participates in a number of other non-U.S. pension arrangements, including various retirement and termination benefit plans, some of which are covered by local law or coordinated with government-sponsored plans, which are not significant in the aggregate and therefore are not included in the information presented below. Spectrum Brands also has various nonqualified deferred compensation agreements with certain of its employees. Under certain of these agreements, Spectrum Brands has agreed to pay certain amounts annually for the first 15 years subsequent to retirement or to a designated beneficiary upon death. It is management s intent that life insurance contracts owned by Spectrum Brands will fund these agreements. Under the remaining agreements, Spectrum Brands has agreed to pay such deferred amounts in up to 15 annual installments beginning on a date specified by the employee, subsequent to retirement or disability, or to a designated beneficiary upon death.

Spectrum Brands also provides postretirement life insurance and medical benefits to certain retirees under two separate contributory plans.

Consolidated

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

	Three Month Period Ended		Nine Month Period Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Service cost	$ 667	$ 818	$ 1,966	$ 2,453
Interest cost	2,763	2,772	7,662	8,315
Expected return on assets	(2,273)	(2,217)	(6,043)	(6,650)
Recognized net actuarial loss	249	97	528	291
Employee contributions	(46)	(129)	(139)	(386)
	$ 1,360	$ 1,341	$ 3,974	$ 4,023
Contributions made during period	$ 1,337	$ 3,216	$ 3,914	$ 6,227

(9) 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 also assumes policy risks from other insurance companies.

The effect of reinsurance on premiums earned, benefits incurred and reserve changes were as follows:

	Three Month Period Ended				Nine Month Period Ended			
	July 1, 2012		July 3, 2011		July 1, 2012		July 3, 2011	
	Net Premiums Earned	Net Benefits Incurred and Reserve Changes	Net Premiums Earned	Net Benefits Incurred and Reserve Changes	Net Premiums Earned	Net Benefits Incurred and Reserve Changes	Net Premiums Earned	Net Benefits Incurred and Reserve Changes
Direct	$ 74,522	$ 224,913	$ 79,242	$ 215,152	$ 225,757	$ 749,743	$ 79,242	$ 215,152
Assumed	11,363	8,994	11,365	9,708	35,673	26,975	11,365	9,708
Ceded	(73,841)	(92,917)	(65,489)	(94,901)	(219,260)	(217,016)	(65,489)	(94,901)
Net	$ 12,044	$ 140,990	$ 25,118	$ 129,959	$ 42,170	$ 559,702	$ 25,118	$ 129,959

Amounts payable or recoverable for reinsurance on paid and unpaid claims are not subject to periodic or maximum limits. During the three and nine month periods ended July 1, 2012 and July 3, 2011, FGL did not write off any reinsurance balances nor did it commute any ceded reinsurance. As discussed below under Wilton Agreement, FGL monitors the risk of default by reinsurers.

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

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

FGL closed on a significant reinsurance agreement during the nine months ended July 1, 2012 as described below.

Wilton Agreement

On January 26, 2011, Harbinger F&G, LLC (HFG), a wholly-owned subsidiary of the Company and the parent company of FGL, entered into a commitment agreement (the Commitment Agreement) with Wilton Re U.S. Holdings, Inc. (Wilton) committing Wilton Reassurance Company (Wilton Re), a wholly-owned subsidiary of Wilton and a Minnesota insurance company, to enter into one of two amendments to an existing reinsurance agreement with Fidelity & Guaranty Life Insurance Company (FGL Insurance), FGL s principal insurance subsidiary. Effective April 26, 2011, HFG elected the second of the two amendments under the Commitment Agreement (the Raven Springing Amendment), which committed FGL Insurance to cede to Wilton Re all of the business (the Raven Block) then reinsured with Raven Reinsurance Company (Raven Re), a wholly-owned subsidiary of FGL, on or before December 31, 2012, subject to regulatory approval. The Raven Springing Amendment was intended to mitigate the risk associated with HFG s obligation under the First Amended and Restated Stock Purchase Agreement, dated February 17, 2011 (the F&G Stock Purchase Agreement), by replacing the Raven Re reserve facility by December 31, 2012. On September 9, 2011, FGL Insurance and Wilton Re executed an amended and restated Raven Springing Amendment whereby the recapture of the business ceded to Raven Re by FGL Insurance and the re-cession to Wilton Re closed on October 17, 2011 with an effective date of October 1, 2011. In connection with the closing, FGL Insurance transferred assets with a fair value of $580,683, including ceding commission, to Wilton Re.

FGL has a significant concentration of reinsurance with Wilton Re that could have a material impact on the Company s financial position in the event that Wilton Re fails to perform its obligations under the various reinsurance treaties. As of July 1, 2012 the net amount recoverable from Wilton Re was $1,260,805. FGL

monitors both the financial condition of individual reinsurers and risk concentration arising from similar geographic regions, activities and economic characteristics of reinsurers to reduce the risk of default by such reinsurers. As of July 1, 2012, Wilton Re and FGL are still reviewing the settlements associated with new reinsurance transactions FGL entered into after the Company s acquisition of FGL. This ongoing review could result in future adjustments to the settlement amounts reflected in these financial statements.

(10) Stock Compensation

The Company recognized consolidated stock compensation expense as follows:

	Three Month Period Ended		Nine Month Period Ended	
	July 1, 2012	July 3, 2011	July 1, 2012	July 3, 2011
Stock compensation expense	$ 5,247	$ 8,557	$ 17,060	$ 22,903
Related tax benefit	1,591	2,985	5,558	7,985
Noncontrolling interest	1,240	2,522	4,469	6,748
Net	$ 2,416	$ 3,050	$ 7,033	$ 8,170

The amounts before taxes and non-controlling interest are principally included in Selling, general and administrative expenses in the accompanying Condensed Consolidated Statements of Operations.

HGI

HGI granted approximately 140 and 2,215 stock option awards during the three and nine month periods ended July 1, 2012, respectively. All of these grants are time based, and vest over periods of 3 to 4 years. The total fair value of the stock option grants on their respective grant dates was approximately $3,832.

HGI granted approximately 50 and 818 restricted stock awards during the three and nine month periods ended July 1, 2012, respectively. All of these grants are time based, and vest over periods of 7 months to 3 years. The total fair value of the restricted stock grants on their respective grant dates was approximately $3,959.

HGI granted approximately 22 restricted stock units during the nine month period ended July 1, 2012. All of these grants are time based, and vest over periods of 7 months to 1 year. The total fair value of the restricted stock grants on their respective grant dates was approximately $100.

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

The fair values of restricted stock and restricted stock unit awards are determined based on the market price of HGI s common stock on the grant date. The fair value of stock option awards is determined using the Black-Scholes option pricing model. The following assumptions were used in the determination of these grant date fair values using the Black-Scholes option pricing model:

	2012
Risk-free interest rate	0.98% - 1.19%
Assumed dividend yield	
Expected option term	6 years
Volatility	33% - 35%

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A summary of HGI s outstanding stock-based awards as of July 1, 2012, and changes during the nine month period, are as follows:

Stock Option Awards	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value
HGI stock options outstanding at September 30, 2011	143	$ 6.77	$ 2.54
Granted	2,215	4.85	1.73
Exercised	(8)	3.33	1.29
Forfeited or expired	(125)	7.01	2.64
HGI stock options outstanding at July 1, 2012	2,225	4.86	1.73
Exercisable at July 1, 2012	7	6.50	2.35
Vested or expected to vest at July 1, 2012	2,225	4.86	1.73

The weighted-average rem