HARBINGER GROUP INC.
Form 10-Q
February 09, 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 January 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 139,414,409 shares of the registrant s common stock outstanding as of February 7, 2012.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

HARBINGER GROUP INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	January 1, 2012 (Unaudited)	September 30, 2011 (a)
ASSETS		
Consumer Products and Other:		
Cash and cash equivalents	$ 360,444	$ 321,352
Short-term investments	293,748	350,638
Receivables, net	407,787	394,283
Inventories, net	482,292	434,630
Prepaid expenses and other current assets	84,576	143,654
Total current assets	1,628,847	1,644,557
Properties, net	204,456	206,799
Goodwill	690,283	610,338
Intangibles, net	1,759,216	1,683,909
Deferred charges and other assets	100,142	97,324
	4,382,944	4,242,927
Insurance:		
Investments:		
Fixed maturities, available-for-sale, at fair value	14,204,403	15,367,474
Equity securities, available-for-sale, at fair value	262,426	287,043
Derivative investments	82,932	52,335
Other invested assets	19,292	44,279
Total investments	14,569,053	15,751,131
Cash and cash equivalents	1,844,343	816,007
Accrued investment income	181,772	212,848
Reinsurance recoverable	2,313,726	1,596,790
Intangibles, net	460,539	457,167
Deferred tax assets	195,179	211,641
Other assets	63,525	291,043
	19,628,137	19,336,627
Total assets	$ 24,011,081	$ 23,579,554
LIABILITIES AND EQUITY		
Consumer Products and Other:		
Current portion of long-term debt	$ 23,356	$ 16,090
Accounts payable	295,771	328,635

Accrued and other current liabilities	267,900	317,629
Total current liabilities	587,027	662,354
Long-term debt	2,253,408	2,032,690
Equity conversion feature of preferred stock	47,430	75,350
Employee benefit obligations	86,737	89,857
Deferred tax liabilities	363,854	338,679
Other liabilities	35,057	44,957
	3,373,513	3,243,887
Insurance:		
Contractholder funds	14,853,421	14,549,970
Future policy benefits	3,598,082	3,598,208
Liability for policy and contract claims	57,411	56,650
Note payable		95,000
Other liabilities	451,014	377,527
	18,959,928	18,677,355
Total liabilities	22,333,441	21,921,242
Commitments and contingencies		
Temporary equity:		
Redeemable preferred stock	300,040	292,437
Harbinger Group Inc. stockholders equity:		
Common stock	1,394	1,393
Additional paid-in capital	871,775	872,683
Accumulated deficit	(111,588)	(135,347)
Accumulated other comprehensive income	150,352	149,448
Total Harbinger Group Inc. stockholders' equity	911,933	888,177
Noncontrolling interest	465,667	477,698
Total permanent equity	1,377,600	1,365,875
Total liabilities and equity	$ 24,011,081	$ 23,579,554

(a) Derived from the audited consolidated financial statements as of September 30, 2011.

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	
	January 1, 2012	**January 2, 2011**
	(Unaudited)	
Revenues:		
Consumer Products and Other:		
Net sales	$ 848,771	$ 861,066
Insurance:		
Premiums	16,813	
Net investment income	186,789	
Net investment gains	103,944	
Insurance and investment product fees and other	9,732	
	317,278	
Total revenues	1,166,049	861,066
Operating costs and expenses:		
Consumer Products and Other:		
Cost of goods sold	564,745	561,828
Selling, general and administrative expenses	208,719	234,544
	773,464	796,372
Insurance:		
Benefits and other changes in policy reserves	176,874	
Acquisition and operating expenses, net of deferrals	61,798	
Amortization of intangibles	42,082	
	280,754	
Total operating costs and expenses	1,054,218	796,372
Operating income	111,831	64,694
Interest expense	(55,905)	(58,056)
Other income (expense), net	29,145	(653)
Income from continuing operations before income taxes	85,071	5,985
Income tax expense	39,558	35,046
Net income (loss)	45,513	(29,061)
Less: Net income (loss) attributable to noncontrolling interest	6,050	(8,991)
Net income (loss) attributable to controlling interest	39,463	(20,070)
Less: Preferred stock dividends and accretion	15,704	
Net income (loss) attributable to common and participating preferred stockholders	$ 23,759	$ (20,070)

Net income (loss) per common share attributable to controlling interest:				
Basic	$	0.12	$	(0.14)
Diluted	$	0.06	$	(0.14)

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)

	Three Month Period Ended January 1, 2012 (Unaudited)	Three Month Period Ended January 2, 2011 (Unaudited)
Cash flows from operating activities:		
Net income (loss)	$ 45,513	$ (29,061)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation of properties	9,283	12,411
Amortization of intangibles	56,710	14,319
Stock-based compensation	4,450	5,643
Amortization of debt issuance costs	2,370	4,634
Amortization of debt discount	316	2,422
Deferred income taxes	41,219	38,347
Administrative related reorganization items		3,639
Cost of trading securities acquired for resale	(348,491)	
Proceeds from trading securities sold	415,916	
Interest credited/index credits to contractholder account balances	137,924	
Amortization of fixed maturity discounts and premiums	24,468	
Net recognized gains on investments and derivatives	(133,907)	
Charges assessed to contractholders for mortality and administration	(3,109)	
Deferred policy acquisition costs	(39,780)	
Cash transferred to reinsurer	(176,770)	
Non-cash restructuring and related charges	558	
Changes in operating assets and liabilities:		
Receivables	(11,478)	(7,844)
Inventories	(41,624)	18,423
Prepaid expenses and other current assets	56,402	(1,013)
Accrued investment income	25,029	
Reinsurance recoverable	(51,183)	
Accounts payable and accrued and other current liabilities	(91,085)	(125,045)
Future policy benefits	(126)	
Liability for policy and contract claims	761	
Other operating	70,126	9,751
Net cash used in continuing operating activities	(6,508)	(53,374)
Net cash used in discontinued operating activities		(252)
Net cash used in operating activities	(6,508)	(53,626)
Cash flows from investing activities:		
Proceeds from investments sold, matured or repaid	1,739,746	33,954
Cost of investments acquired	(654,479)	(51,927)
Acquisitions, net of cash acquired	(183,140)	(10,278)
Capital expenditures	(8,931)	(8,152)
Other investing activities, net	(100)	(3)
Net cash provided in (used in) investing activities	893,096	(36,406)

Cash flows from financing activities:

Proceeds from issuance of senior secured notes	217,000	345,055
Revolving credit facility activity	11,400	43,500
Proceeds from other debt financing	1,361	13,044
Repayments of debt	(97,172)	(70,224)
Debt issuance costs	(4,020)	(11,618)
Restricted cash placed in escrow		(360,133)
Treasury stock purchases of subsidiary	(12,765)	(3,241)
Contractholder account deposits	611,357	
Contractholder account withdrawals	(540,825)	
Dividends paid on preferred stock	(7,123)	
Other financing activities, net		874
Net cash provided by (used in) financing activities	179,213	(42,743)
Effect of exchange rate changes on cash and cash equivalents	1,627	(1,596)
Net increase (decrease) in cash and cash equivalents	1,067,428	(134,371)
Cash and cash equivalents at beginning of period	1,137,359	256,831
Cash and cash equivalents at end of period	$ 2,204,787	$ 122,460
Cash and cash equivalents - Consumer Products and Other	$ 360,444	$ 122,460
Cash and cash equivalents - Insurance	1,844,343	
Total cash and cash equivalents at end of period	$ 2,204,787	$ 122,460

See accompanying notes to condensed consolidated financial statements.

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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 69% 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 six sectors in which it intends to primarily pursue investment opportunities: consumer products, insurance and financial products, telecommunications, agriculture, power generation and water and natural resources. The Company may also make investments in other sectors. In addition to acquiring controlling equity 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 liquidate.

On January 7, 2011, HGI completed the acquisition (the Spectrum Brands Acquisition) of a controlling financial interest in Spectrum Brands Holdings, Inc. (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 January 1, 2012, the Company s ownership of the outstanding common stock of Spectrum Brands was 53.7%. 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 business segments, consumer products and, commencing April 6, 2011, insurance (see Note 18 for segment data).

The accompanying unaudited Condensed Consolidated Financial Statements of the Company included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of such information. All such adjustments are of a normal recurring nature. Although the Company believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), have been condensed or omitted pursuant to such rules and regulations. 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 three months ended January 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, for the three month periods ended January 1, 2012 and January 2, 2011 are as follows:

	Three Months	
	2012	**2011**
Net income (loss)	$ 45,513	$ (29,061)
Other comprehensive income (loss):		
Consumer Products and Other:		
Foreign currency translation	(14,929)	(4,074)
Net unrealized gain on derivative instruments	1,818	4,179
Actuarial adjustments to pension plans	309	
Deferred tax valuation allowance adjustments	303	643
	(12,499)	748
Insurance:		
Unrealized investment gains (losses):		
Changes in unrealized investment gains before reclassification adjustment	76,271	
Net reclassification adjustment for gains included in net income	(69,107)	
Changes in unrealized investment gains after reclassification adjustment	7,164	
Adjustments to intangible assets	5,302	
Changes in deferred income tax asset/liability	(4,408)	
Net unrealized gain on investments	8,058	
Non-credit related other-than-temporary impairment:		
Changes in non-credit related other-than-temporary impairment	(923)	
Adjustments to intangible assets	372	
Changes in deferred income tax asset/liability	193	
Net non-credit related other than-temporary impairment	(358)	
Net change to derive comprehensive income (loss) for the period	(4,799)	748
Comprehensive income (loss)	40,714	(28,313)
Less: Comprehensive income (loss) attributable to the noncontrolling interest:		
Net income (loss)	6,050	(8,991)
Other comprehensive (loss) income	(5,790)	340
	260	(8,651)
Comprehensive income (loss) attributable to the controlling interest	$ 40,454	$ (19,662)

Net exchange 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 (loss) (AOCI) section of HGI s stockholders equity. Also included are the effects of exchange rate changes on intercompany balances of a long-term nature and transactions designated as hedges of net foreign

investments.

The changes in accumulated foreign currency translation for the three month periods ended January 1, 2012 and January 2, 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.

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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:

	January 1, 2012	September 30, 2011
Trading:		
Marketable equity securities	$ 210,315	$ 262,085
Marketable debt securities	48,435	12,665
	258,750	274,750
Held to maturity:		
U.S. Treasury securities	34,748	75,638
Certificate of deposit	250	250
	34,998	75,888
Total investments	$ 293,748	$ 350,638

Insurance

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 at January 1, 2012 and September 30, 2011 are summarized as follows:

	January 1, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value and Carrying Value
Available-for-sale securities				
Asset-backed securities	$ 504,277	$ 1,485	$ (8,557)	$ 497,205
Commercial mortgage-backed securities	571,275	14,809	(7,764)	578,320
Corporates	10,429,399	473,276	(102,069)	10,800,606
Equities	268,441	3,444	(9,459)	262,426
Hybrids	682,310	7,283	(37,240)	652,353
Municipals	811,230	98,159	(5)	909,384
Agency residential mortgage-backed securities	193,979	4,317	(437)	197,859
Non-agency residential mortgage-backed securities	444,783	1,821	(23,975)	422,629
U.S. Government	136,770	9,277		146,047

Total available-for-sale securities	14,042,464	613,871	(189,506)	14,466,829
Derivative investments	148,484	7,669	(73,221)	82,932
Other invested assets	19,292			19,292
Total investments	$ 14,210,240	$ 621,540	$ (262,727)	$ 14,569,053

	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 $769 and $524 and unrealized losses of $1,192 and $24 related to the non-credit portion of other-than-temporary impairments on non-agency residential-mortgage-backed securities at January 1, 2012 and September 30, 2011, respectively.

The amortized cost and fair value of fixed maturity available-for-sale securities by contractual maturities, as applicable, were as follows:

	January 1, 2012	
	Amortized Cost	Fair Value
Corporate, Municipal and U.S. Government securities:		
Due in one year or less	$ 348,869	$ 348,570
Due after one year through five years	2,730,848	2,749,866
Due after five years through ten years	3,989,327	4,115,965
Due after ten years	4,308,355	4,641,636
Subtotal	11,377,399	11,856,037
Other securities which provide for periodic payments:		
Asset-backed securities	504,277	497,205
Commercial-mortgage-backed securities	571,275	578,320
Hybrids	682,310	652,353
Agency residential mortgage-backed securities	193,979	197,859
Non-agency residential mortgage-backed securities	444,783	422,629
Total fixed maturity available-for-sale securities	$ 13,774,023	$ 14,204,403

Actual maturities may differ from contractual maturities because issuers may have the right to call or pre-pay obligations.

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 tables below were not other-than-temporary impairments as of January 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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As the amortized cost of all investments was adjusted to fair value as of the FGL Acquisition date, no individual securities have been in a continuous unrealized loss position greater than twelve months. The fair value and gross unrealized losses, of available-for-sale securities, aggregated by investment category, were as follows:

	00,000,000	00,000,000
	January 1, 2012	
	Fair Value	Gross Unrealized Losses
Available-for-sale securities		
Asset-backed securities	$ 381,483	$ (8,557)
Commercial-mortgage-backed securities	190,983	(7,764)
Corporates	2,444,570	(102,069)
Equities	85,879	(9,459)
Hybrids	398,139	(37,240)
Municipals	286	(5)
Agency residential mortgage-backed securities	20,912	(437)
Non-agency residential mortgage-backed securities	322,672	(23,975)
Total available-for-sale securities	$ 3,844,924	$ (189,506)
Total number of available-for-sale securities in an unrealized loss position		421

	00,000,000	00,000,000
	September 30, 2011	
	Fair Value	Gross Unrealized Losses
Available-for-sale securities		
Asset-backed securities	$ 275,135	$ (2,770)
Commercial-mortgage-backed securities	338,865	(18,163)
Corporates	3,081,556	(130,352)
Equities	99,772	(9,033)
Hybrids	450,376	(51,055)
Municipals	1,137	(7)
Agency residential mortgage-backed securities	25,820	(295)
Non-agency residential mortgage-backed securities	375,349	(23,120)
Total available-for-sale securities	$ 4,648,010	$ (234,795)
Total number of available-for-sale securities in an unrealized loss position		505

At January 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 $189,506 and $234,795 at January 1, 2012 and September 30, 2011, respectively. Financial sector-related exposure represents the largest component of the unrealized loss position in the portfolio at January 1, 2012 and September 30, 2011. Elevated risk aversion in capital markets during the most recent period continues to affect prices of commercial mortgage-backed securities and non-agency residential mortgage-backed securities, including the earlier vintage generally investment grade rated securities currently owned. FGL has not added to any exposure in these sectors and will continue to monitor existing positions carefully.

At January 1, 2012 and September 30, 2011, securities with a fair value of $46,220 and $31,320, respectively, were depressed greater than 20% of amortized cost, which represented less than 1% of the carrying values of all investments. Based upon FGL s current evaluation of these securities in accordance with its impairment policy and FGL s 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.

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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 January 1, 2012, for which a portion of the other-than-temporary impairment was recognized in AOCI:

Balance at September 30, 2011	$ 667
Increases attributable to credit losses on securities:	
Other-than-temporary impairment was previously recognized	
Other-than-temporary impairment was not previously recognized	1,465
Balance at January 1, 2012	$ 2,132

For the three months ended January 1, 2012, FGL recognized impairment losses in operations totaling $13,165, which experienced other-than-temporary impairments and had an amortized cost of $66,873 and a fair value of $52,785 at the time of impairment. Details underlying write-downs taken as a result of other-than-temporary impairments that were recognized in net income and included in realized gains on investments were as follows:

	Three Months Ended January 1, 2012
Other-than-temporary impairments recognized in net income:	
Corporates	$ 696
Non-agency residential mortgage-backed securities	2,781
Hybrids	9,688
Total other-than-temporary impairments	$ 13,165

Net Investment Income

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

	Three Months Ended January 1, 2012
Fixed maturity available-for-sale securities	$ 187,220
Equity available-for-sale securities	2,594
Policy loans	251
Invested cash and short-term investments	126
Other investments	(284)
Gross investment income	189,907
Investment expense	(3,118)
Net investment income	$ 186,789

Net Investment Gains (Losses)

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

	Three Months Ended January 1, 2012
Net realized gain on fixed maturity available-for-sale securities	$ 68,661
Realized gain on equity securities	320
Net realized gains on securities	68,981
Realized (loss) on certain derivative instruments	(15,488)
Unrealized gain on certain derivative instruments	50,325
Change in fair value of derivatives	34,837
Realized gain on other invested assests	126
Net investment gains	$ 103,944

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

	Three Months Ended January 1, 2012
Total other-than-temporary impairments	$ (14,088)
Less non-credit portion of other-than-temporary impairments included in other comprehensive income	(923)
Net other-than-temporary impairments	(13,165)
Gains on derivative instruments	34,837
Other realized investment gains	82,272
Net realized gains on securities	$ 103,944

For the three months ended January 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 $1,733,180, gross gains on such sales totaled $92,329 and gross losses totaled $10,503.

Underlying write-downs taken to fixed maturity available-for-sale securities 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 above were $13,165 for the three months ended January 1, 2012.

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

	Three Months Ended	
	January 1, 2012	January 2, 2011
Proceeds from investments sold, matured or repaid:		
Available-for-sale	$ 1,605,932	$
Held-to-maturity	70,900	33,954
Trading (acquired for holding)	21,427	
Derivatives and other	41,487	
	$ 1,739,746	$ 33,954
Cost of investments acquired:		
Available-for-sale	$ (536,564)	$
Held-to-maturity	(30,010)	(51,927)
Trading	(54,143)	
Derivatives and other	(33,762)	
	$ (654,479)	$ (51,927)

Concentrations of Financial Instruments

As of January 1, 2012, FGL s most significant investment in one industry was FGL s investment securities in the banking industry with a fair value of $1,828,608, or 12.6% of the invested assets portfolio. As of January 1, 2012, FGL s exposure to sub-prime and Alternative-A residential mortgage-backed securities was $253,449 and $31,609 or 1.7% and 0.2% 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	January 1, 2012	September 30, 2011
Derivatives designated as hedging instruments:			
Commodity contracts	Receivables	$ 9	$ 274
Foreign exchange contracts	Receivables	5,231	3,189
Foreign exchange contracts	Deferred charges and other assets	205	
Total asset derivatives designated as hedging instruments		5,445	3,463
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Receivables	174	
Total asset derivatives		$ 5,619	$ 3,463

Liability Derivatives	Classification	January 1, 2012	September 30, 2011
Derivatives designated as hedging instruments:			
Interest rate contracts	Accounts payable	$ 331	$ 1,246
Interest rate contracts	Accrued and other current liabilities	662	708
Commodity contracts	Accounts payable	1,353	1,228
Commodity contracts	Other liabilities	13	4
Foreign exchange contracts	Accounts payable	2,389	2,698
Total liability derivatives designated as hedging instruments		4,748	5,884
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Accounts payable	5,416	10,945
Foreign exchange contracts	Other liabilities	6,950	12,036
Equity conversion feature of preferred stock	Equity conversion feature of preferred stock	47,430	75,350
Total liability derivatives		$ 64,544	$ 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.

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 month periods ended January 1, 2012 and January 2, 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
	2012	2011	2012	2011	2012	2011	
Commodity contracts	$ (745)	$ 2,023	$ (366)	$ 550	$ (19)	$ 1	Cost of goods sold
Interest rate contracts	(21)	7	(659)	(849)		(101)	Interest expense
Foreign exchange contracts	(129)	(389)	(122)	(119)			Net sales
Foreign exchange contracts	1,308	1,942	(1,255)	(2,125)			Cost of goods sold
Total	$ 413	$ 3,583	$ (2,402)	$ (2,543)	$ (19)	$ (100)	

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 month periods ended January 1, 2012 and January 2, 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
	2012	2011	
Foreign exchange contracts	$ 7,245	$ 9,058	Other income (expense), net
Equity conversion feature of preferred stock	27,920		Other income (expense), net
Total	$ 35,165	$ 9,058	

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 both January 1, 2012 and September 30, 2011, Spectrum Brands had a portfolio of U.S. dollar denominated interest rate swaps outstanding, which effectively fix the interest on floating rate debt (exclusive of lender spreads), as follows: 2.25% for a notional principal amount of $200,000 to January 9, 2012 and 2.29% for a notional principal amount of $300,000 to February 9, 2012. The derivative net loss on these contracts recorded in AOCI at January 1, 2012 was $(80), net of tax benefit of $92 and noncontrolling interest of $69. The derivative net loss on these contracts recorded in AOCI at September 30, 2011 was $(289), net of tax benefit of $334 and noncontrolling interest of $256. At January 1, 2012, the portion of derivative net losses estimated to be reclassified from AOCI into earnings over the next twelve months is $(80), net of tax and noncontrolling interest.

Spectrum Brands periodically enters into forward foreign exchange contracts to hedge the risk from forecasted foreign 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 January 1, 2012, Spectrum Brands had a series of foreign exchange derivative contracts outstanding through March 2013 with a contract value of $191,266. At September 30, 2011, Spectrum Brands had a series of foreign exchange derivative contracts outstanding through September 2012 with a contract value of $223,417. The derivative net gain on these contracts recorded in AOCI at January 1, 2012 was $1,207, net of tax benefit of $800 and noncontrolling interest of $1,040. The derivative net gain on these contracts recorded in AOCI at September 30, 2011 was $182, net of tax expense of $148 and noncontrolling interest of $161. At January 1, 2012, the portion of derivative net losses estimated to be reclassified from AOCI into earnings over the next twelve months is $1,127 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 January 1, 2012, Spectrum Brands had a series of such swap contracts outstanding through March 2013 for 7 tons of raw materials with a contract value of $14,761. At September 30, 2011, Spectrum Brands had a series of such swap contracts outstanding through December 2012 for 9 tons of raw materials with a contract value of $18,858. The derivative net loss on these contracts recorded in AOCI at January 1, 2012 was $(455), net of tax benefit of

$442 and noncontrolling interest of $393. The derivative net loss on these contracts recorded in AOCI at September 30, 2011 was $(318), net of tax benefit of $312 and noncontrolling interest of $281. At January 1, 2012, the portion of derivative net losses estimated to be reclassified from AOCI into earnings over the next twelve months is $(455), 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 US 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 January 1, 2012 and September 30, 2011, Spectrum Brands had $179,324 and $265,974, respectively, of notional value for such foreign exchange derivative contracts outstanding.

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 primarily concentrated with a foreign financial institution counterparty. Spectrum Brands considers these exposures when measuring its credit reserve on its derivative assets, which were $95 and $18 at January 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 January 1, 2012 and September 30, 2011, Spectrum Brands had posted cash collateral of $1,692 and $418, respectively, related to such liability positions. In addition, at both January 1, 2012 and September 30, 2011, Spectrum Brands had posted standby letters of credit of $2,000 related to such liability positions. The cash collateral is included in Receivables, net within the accompanying Condensed Consolidated Balance Sheets.

FGL

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 Index Annuity (FIA) contracts, is as follows:

	January 1, 2012	September 30, 2011
Assets:		
Derivative investments:		
Call options	$ 82,932	$ 52,335
Liabilities:		
Contractholder funds:		
FIA embedded derivative	$ 1,455,073	$ 1,396,340
Other liabilities:		
Future contracts	736	3,828
Available-for-sale embedded derivative	388	400
	$ 1,456,197	$ 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 Months Ended January 1, 2012
Revenues:		
Net investment gains:		
Call options	$	19,941
Future contracts		14,896
		34,837
Net investment income:		
Available-for-sale embedded derivatives		12
	$	34,849
Benefits and other changes in policy reserves:		
FIA embedded derivatives	$	58,733

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 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 . 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:

		January 1, 2012		September 30, 2011	
Counterparty	Credit Rating (Moody s/S&P)	Notional Amount	Fair Value	Notional Amount	Fair Value
Barclay s Bank	Aa3/A+	$ 284,019	$ 1,960	$ 385,189	$ 4,105
Credit Suisse	Aa2/A	286,740	2,717	327,095	2,785
Bank of America	Baa1/A	1,863,102	26,358	1,692,142	14,637
Deutsche Bank	Aa3/A+	1,382,529	19,101	1,463,596	11,402
Morgan Stanley	A2/A	1,537,491	22,066	1,629,247	15,373
Nomura	Baa2/BBB+	107,000	6,220	107,000	4,033
Royal Bank of Scotland	A3/A-	120,475	4,510		
		$ 5,581,356	$ 82,932	$ 5,604,269	$ 52,335

Collateral Agreements

FGL is required to maintain minimum ratings as a matter of routine practice in its ISDA agreements. Under some ISDA agreements, FGL has agreed to maintain certain financial strength ratings. A downgrade below these levels could result in termination of 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 January 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 $82,932 and $52,335 at January 1, 2012 and September 30, 2011, respectively.

FGL held 3,000 and 2,458 futures contracts at January 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 sections of the Condensed Consolidated Balance Sheets. The amount of collateral held by the counterparties for such contracts was $11,892 and $9,820 at January 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.

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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.

The carrying amounts and estimated fair values of the Company s consolidated financial instruments for which the disclosure of fair values is required were as follows (asset/(liability)):

	January 1, 2012		September 30, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Consumer Products and Other				
Cash and cash equivalents	$ 360,444	$ 360,444	$ 321,352	$ 321,352
Short-term investments (including related interest receivable of $3 and $9)	293,751	293,745	350,647	350,649
Total debt	(2,276,764)	(2,357,922)	(2,048,780)	(2,135,528)
Derivatives:				
Interest rate swap agreements	(993)	(993)	(1,954)	(1,954)
Commodity swap and option agreements	(1,357)	(1,357)	(958)	(958)
Foreign exchange forward agreements	(9,145)	(9,145)	(22,490)	(22,490)
Equity conversion feature of preferred stock	(47,430)	(47,430)	(75,350)	(75,350)
Redeemable preferred stock, excluding equity conversion feature	(300,040)	(359,970)	(292,437)	(337,060)
Insurance				
Cash and cash equivalents	1,844,343	1,844,343	816,007	816,007
Investments:				
Fixed maturities, available-for-sale	14,204,403	14,204,403	15,367,474	15,367,474
Equity securities, available-for-sale	262,426	262,426	287,043	287,043
Other invested assets	19,292	19,292	44,279	44,279
Derivatives:				
Call options	82,932	82,932	52,335	52,335
Future contracts	(736)	(736)	(3,828)	(3,828)
Available-for-sale embedded derivatives	(388)	(388)	(400)	(400)
Investment contracts, included in contractholder funds	(14,853,421)	(13,560,194)	(14,549,970)	(13,388,353)
Note payable			(95,000)	(95,000)

The carrying amounts of 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 January 1, 2012 and September 30, 2011, this resulted in lower fair value reserves relative to the carrying value. The Company 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 at such carrying value in October 2011.

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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).

Financial assets and liabilities measured and carried at fair value on a recurring basis in the accompanying Condensed Consolidated Balance Sheets are summarized, according to the hierarchy previously described, as follows:

	January 1, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Fixed maturity securities, available-for-sale:				
Asset-backed securities	$	$ 96,502	$ 400,703	$ 497,205
Commercial mortgage-backed securities		578,320		578,320
Corporates		10,662,053	138,553	10,800,606
Hybrids		647,215	5,138	652,353
Municipals		909,334	50	909,384
Agency residential mortgage-backed securities		194,547	3,312	197,859
Non-agency residential mortgage-backed securities		418,992	3,637	422,629
U.S. Government	146,047			146,047
Fixed maturity securities - trading		48,435		48,435
Equity securities - available-for-sale		262,426		262,426
Equity securities - trading	210,315			210,315
Derivatives:				
Call options		82,932		82,932
Foreign exchange forward agreements		5,610		5,610
Commodity swap and option agreements		9		9
Total assets carried at fair value	$ 356,362	$ 13,906,375	$ 551,393	$ 14,814,130
Liabilities				
Derivatives:				
FIA embedded derivatives, included in contractholder funds	$	$	$ (1,455,073)	$ (1,455,073)
Future contracts		(736)		(736)
Available-for-sale embedded derivatives			(388)	(388)
Interest rate swap agreements		(993)		(993)
Commodity swap and option agreements		(1,366)		(1,366)
Foreign exchange forward agreements		(14,755)		(14,755)
Equity conversion feature of preferred stock			(47,430)	(47,430)
Total liabilities carried at fair value	$	$ (17,850)	$ (1,502,891)	$ (1,520,741)

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	September 30, 2011			
	Level 1	Level 2	Level 3	Total
Assets				
Fixed maturity securities, available-for-sale:				
Asset-backed securities	$	$ 125,966	$ 374,518	$ 500,484
Commercial mortgage-backed securities		565,577		565,577
Corporates		11,696,090	159,684	11,855,774
Hybrids		654,084	5,205	659,289
Municipals		936,484		936,484
Agency residential mortgage-backed securities		218,713	3,312	222,025
Non-agency residential mortgage-backed securities		440,758	3,759	444,517
U.S. Government	183,324			183,324
Fixed maturity securities - trading		12,665		12,665
Equity securities - available-for-sale		287,043		287,043
Equity securities - trading	238,062	24,023		262,085
Derivatives:				
Call options		52,335		52,335
Foreign exchange forward agreements		3,189		3,189
Commodity swap and option agreements		274		274
Total assets carried at fair value	$ 421,386	$ 15,017,201	$ 546,478	$ 15,985,065
Liabilities				
Derivatives:				
FIA embedded derivatives, included in contractholder funds	$	$	$ (1,396,340)	$ (1,396,340)
Future contracts		(3,828)		(3,828)
Available-for-sale embedded derivatives			(400)	(400)
Interest rate swap agreements		(1,954)		(1,954)
Commodity swap and option agreements		(1,232)		(1,232)
Foreign exchange forward agreements		(25,679)		(25,679)
Equity conversion feature of preferred stock			(75,350)	(75,350)
Total liabilities carried at fair value	$	$ (32,693)	$ (1,472,090)	$ (1,504,783)

The following tables summarize changes to financial instruments carried at fair value and classified within Level 3 of the fair value hierarchy, all of which are held by FGL except for the equity conversion feature of HGI s Preferred Stock. 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 January 1, 2012					
	Balance at Beginning of Period	Total Gains (Losses) Included in Earnings	Total Gains (Losses) 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	$ 374,518	$	$ (4,575)	$ 30,760	$	$ 400,703
Corporates	159,684	(66)	(856)	(9,811)	(10,398)	138,553
Hybrids	5,205		(67)			5,138
Municipals		(1)		(10)	61	50
Agency residential mortgage-backed securities	3,312					3,312
Non-agency residential mortgage-backed securities	3,759		(25)	(97)		3,637

Total assets at fair value	$ 546,478	$ (67)	$ (5,523)	$ 20,842	$ (10,337)	$ 551,393
Liabilities						
FIA embedded derivatives, included in contractholder funds	$ (1,396,340)	$ (58,733)	$	$	$	$ (1,455,073)
Available-for-sale embedded derivatives	(400)	12				(388)
Equity conversion feature of preferred stock	(75,350)	27,920				(47,430)
Total liabilities at fair value	$ (1,472,090)	$ (30,801)	$	$	$	$ (1,502,891)

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

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The Company 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 period ended January 1, 2012.

During the three months ended January 1, 2012, primary market issuance and secondary market activity for certain 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 s conclusion that there is sufficient trading activity in similar instruments to support classifying these securities as Level 2 as of January 1, 2012. Accordingly, FGL s assessment resulted in a transfer out of Level 3 of $10,398 related to corporate and a transfer into Level 3 of $61 related to municipal securities during the three months ended January 1, 2012.

The following table presents the gross components of purchases, sales, and settlements, net, of Level 3 financial instruments during the three month period ended January 1, 2012. There were no issuances during this period.

	Three Month Period Ended January 1, 2012			
	Purchases	**Sales**	**Settlements**	**Net purchases, sales & settlements**
Assets				
Fixed maturity, securities available-for-sale:				
Asset-backed securities	$ 38,829	$	$ (8,069)	$ 30,760
Corporates		(7,011)	(2,800)	(9,811)
Municipals			(10)	(10)
Non-agency residential mortgage-backed securities			(97)	(97)
Total assets	$ 38,829	$ (7,011)	$ (10,976)	$ 20,842

(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:

		Intangible Assets		
	Goodwill	**Indefinite Lived**	**Amortizable**	**Total**
Balance at September 30, 2011	$ 610,338	$ 826,795	$ 857,114	$ 1,683,909
Business acquisitions (Note 14)	84,383	22,000	82,118	104,118
Amortization during period			(14,628)	(14,628)
Effect of translation	(4,438)	(8,273)	(5,910)	(14,183)
Balance at January 1, 2012	$ 690,283	$ 840,522	$ 918,694	$ 1,759,216

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.

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

	January 1, 2012			September 30, 2011			
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net	Amortizable Life
Customer relationships	$ 795,292	$ 82,229	$ 713,063	$ 738,937	$ 73,373	$ 665,564	15-20 years
Trade names	149,700	19,460	130,240	149,700	16,320	133,380	4-12 years
Technology assets	90,923	15,532	75,391	71,805	13,635	58,170	4-17 years
	$ 1,035,915	$ 117,221	$ 918,694	$ 960,442	$ 103,328	$ 857,114	

Amortization expense for the three month periods ended January 1, 2012 and January 2, 2011 is as follows:

	Three Months	
	2012	2011
Customer relationships	$ 9,591	$ 9,530
Trade names	3,140	3,140
Technology assets	1,897	1,649
	$14,628	$14,319

The Company estimates annual amortization expense of intangible assets for the next five fiscal years will approximate $62,700 per year.

Insurance

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		39,780	39,780
Less: Components of amortization:			
Unlocking	180	138	318
Interest	7,110	477	7,587
Periodic amortization	(43,783)	(6,204)	(49,987)
Add: Adjustment for change in unrealized investment losses (gains), net	6,556	(882)	5,674
Balance at January 1, 2012	$ 389,123	$ 71,416	$ 460,539

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 January 1, 2012 and September 30, 2011, the VOBA balance included cumulative adjustments for net unrealized investment gains of $(163,561) and $(170,117), respectively, and the DAC balances included cumulative adjustments for net unrealized investment gains of $(3,028) and $(2,146), respectively.

The above DAC balances include $5,776 and $5,048 of DSI, net of shadow adjustments, as of January 1, 2012 and September 30, 2011, respectively.

The weighted average amortization period for VOBA and DAC are approximately 5.0 and 5.8 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	$ 53,749	$ 4,769
2013	78,792	7,898
2014	71,739	8,951
2015	62,207	8,556
2016	54,764	7,973
Thereafter	231,433	36,297

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(7) Debt

The Company s consolidated debt consists of the following:

	January 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	523,873	5.1%	525,237	5.1%
9.5% Senior Secured Notes, due June 15, 2018	950,000	9.5%	750,000	9.5%
12% Notes, due August 28, 2019	245,031	12.0%	245,031	12.0%
ABL Revolving Credit Facility, expiring April 21, 2016	11,400	4.5%		2.5%
Other notes and obligations	20,377	11.0%	19,333	10.5%
Capitalized lease obligations	24,469	6.2%	24,911	6.2%
	2,275,150		2,064,512	
Original issuance premiums (discounts) on debt, net	1,614		(15,732)	
Less current maturities	23,356		16,090	
Long-term debt - Consumer Products and Other	$ 2,253,408		$ 2,032,690	
FGL:				
Note payable - Insurance	$		$ 95,000	

Spectrum Brands

In December 2011, Spectrum Brands amended its term loan (the Term Loan). 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 and liens were 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 connection with the Term Loan amendment and the 9.5% Note offering, Spectrum Brands recorded $557 and $3,463, respectively, of fees during the three month period ended January 1, 2012. The fees are classified as Deferred charges and other assets in the accompanying Condensed Consolidated Balance Sheet as of January 1, 2012 and are being amortized to interest expense utilizing the effective interest method over the respective terms of the debt. In connection with the Term Loan amendment, Spectrum Brands also recorded cash charges of $501 as an increase to interest expense during the three month period ended January 1, 2012.

As a result of borrowings and payments under the ABL Revolving Credit Facility at January 1, 2012, Spectrum Brands had aggregate borrowing availability of approximately $133,412, net of lender reserves of $38,934 and outstanding letters of credit of $28,804.

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.

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(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 during the periods are as follows:

	Three Months Ended	
	January 1, 2012	**January 2, 2011**
Service cost	$ 632	$ 818
Interest cost	2,137	2,772
Expected return on assets	(1,498)	(2,217)
Recognized net actuarial loss	30	97
Employee contributions	(46)	(129)
	$ 1,255	$ 1,341
Contributions made during period	$ 873	$ 914

(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 and benefits incurred for the three month period ended January 1, 2012 were as follows:

	Net Premiums Earned	Net Benefits Incurred
Direct	$ 76,174	$ 237,725
Assumed	12,195	8,465
Ceded	(71,556)	(69,316)
Net	$ 16,813	$ 176,874

Amounts payable or recoverable for reinsurance on paid and unpaid claims are not subject to periodic or maximum limits. During the three months ended January 1, 2012, FGL did not write off any reinsurance balances nor did it commute any ceded reinsurance.

No policies issued by FGL have been reinsured with a 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 nonpayment of premiums or other similar credit issues.

FGL closed on a significant reinsurance agreement during the three months ended January 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 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 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 amendment under the Commitment Agreement (the Raven Springing Amendment) that 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) to replace 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. FGL Insurance transferred assets with a fair value of $580,683, net of ceding commission, to Wilton Re.

FGL Insurance has a significant concentration of reinsurance with Wilton Re that could have a material impact on FGL Insurance s financial position. As of January 1, 2012 the net amount recoverable from Wilton Re was $1,299,256. FGL Insurance 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 January 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.

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(10) Stock Compensation

The Company recognized consolidated stock compensation expense as follows:

	Three Months Ended	
	January 1, 2012	January 2, 2011
Stock compensation expense	$ 4,450	$ 5,643
Related tax benefit	1,535	