HRG GROUP, INC.
Form 10-Q
May 09, 2016

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 March 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 1-4219

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ or No x
There were 200,694,218 shares of the registrant's common stock outstanding as of May 5, 2016.

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

HRG GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

	March 31, 2016 (Unaudited)	September 30, 2015 (As Adjusted)
ASSETS		
Investments	$ 139.3	$ 278.9
Cash and cash equivalents	465.6	695.2
Funds withheld receivables	1,679.4	1,710.1
Receivables, net	662.3	632.9
Inventories, net	924.4	780.8
Deferred tax assets	299.8	51.2
Properties, including oil and natural gas properties, net	664.7	798.4
Goodwill	2,494.1	2,487.4
Intangibles	2,432.4	2,480.3
Other assets	149.1	134.3
Assets of business held for sale	25,544.0	24,984.5
Total assets	$ 35,455.1	$ 35,034.0
LIABILITIES AND EQUITY		
Insurance reserves	$ 1,824.8	$ 1,856.0
Debt	6,232.0	6,310.5
Accounts payable and other current liabilities	847.5	1,095.6
Employee benefit obligations	87.6	92.9
Deferred tax liabilities	895.6	574.5
Other liabilities	71.6	95.5
Liabilities of business held for sale	23,988.1	23,420.9
Total liabilities	33,947.2	33,445.9
Commitments and contingencies		
HRG Group, Inc. shareholders' equity:		
Common stock	2.0	2.0
Additional paid-in capital	1,437.7	1,458.5
Accumulated deficit	(901.8)	(833.1)
Accumulated other comprehensive loss	(72.8)	(40.7)
Total HRG Group, Inc. shareholders' equity	465.1	586.7
Noncontrolling interest	1,042.8	1,001.4
Total shareholders' equity	1,507.9	1,588.1
Total liabilities and equity	$ 35,455.1	$ 35,034.0

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Revenues:				
Net consumer and other product sales	$1,209.6	$1,086.5	$2,428.4	$2,175.3
Oil and natural gas	9.5	26.0	26.3	60.3
Net investment income	15.5	19.5	37.0	43.9
Net investment gains	33.1	9.7	7.2	4.8
Insurance and investment product fees and other	1.8	2.1	4.1	3.2
Total revenues	1,269.5	1,143.8	2,503.0	2,287.5
Operating costs and expenses:				
Cost of consumer products and other goods sold	746.8	707.0	1,524.9	1,419.0
Oil and natural gas direct operating costs	9.2	23.3	26.3	43.8
Benefits and other changes in policy reserves	35.7	30.6	43.8	50.3
Selling, acquisition, operating and general expenses	311.0	324.2	619.1	660.4
Impairments and bad debt expense	27.6	214.6	90.8	464.4
Amortization of intangibles	23.4	21.2	47.0	41.7
Total operating costs and expenses	1,153.7	1,320.9	2,351.9	2,679.6
Operating income (loss)	115.8	(177.1)	151.1	(392.1)
Interest expense	(95.8)	(81.1)	(193.3)	(157.5)
Gain on sale of oil and gas properties	—	—	105.6	—
Gain upon gaining control of equity method investment	—	—	—	141.2
Other income, net	0.5	14.1	1.6	46.9
Income (loss) from continuing operations before income taxes	20.5	(244.1)	65.0	(361.5)
Income tax expense (benefit)	8.9	(0.8)	10.8	5.2
Net income (loss) from continuing operations	11.6	(243.3)	54.2	(366.7)
(Loss) income from discontinued operations, net of tax	(13.1)	5.8	(48.7)	22.8
Net (loss) income	(1.5)	(237.5)	5.5	(343.9)
Less: Net income (loss) attributable to noncontrolling interest	33.3	(9.2)	74.2	(5.8)
Net loss attributable to controlling interest	$(34.8)	$(228.3)	$(68.7)	$(338.1)
Amounts attributable to controlling interest:				
Net loss from continuing operations	$(19.9)	$(236.9)	$(8.8)	$(360.4)
Net (loss) income from discontinued operations	(14.9)	8.6	(59.9)	22.3
Net loss attributable to controlling interest	$(34.8)	$(228.3)	$(68.7)	$(338.1)
Net loss per common share attributable to controlling interest:				
Basic loss from continuing operation	$(0.10)	$(1.20)	$(0.05)	$(1.82)
Basic (loss) income from discontinued operations	(0.08)	0.04	(0.30)	0.11
Basic	$(0.18)	$(1.16)	$(0.35)	$(1.71)
Diluted loss from continuing operation	$(0.10)	$(1.20)	$(0.05)	$(1.82)
Diluted (loss) income from discontinued operations	(0.08)	0.04	(0.30)	0.11
Diluted	$(0.18)	$(1.16)	$(0.35)	$(1.71)

See accompanying notes to condensed consolidated financial statements.

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

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
	(Unaudited)		(Unaudited)	
Net (loss) income	$(1.5)	$(237.5)	$5.5	$(343.9)
Other comprehensive income (loss)				
Foreign currency translation gain (loss)	28.2	(43.6)	7.7	(78.1)
Net unrealized (loss) gain on derivative instruments				
Changes in derivative instruments before reclassification adjustment	(5.4)	9.3	(0.8)	17.1
Net reclassification adjustment for gains included in net income	(0.7)	(7.0)	(0.9)	(11.8)
Changes in derivative instruments after reclassification adjustment	(6.1)	2.3	(1.7)	5.3
Changes in deferred income tax asset/liability	2.4	(0.9)	1.5	(0.9)
Deferred tax valuation allowance adjustments	0.8	—	1.0	(1.0)
Net unrealized (loss) gain on hedging derivative instruments	(2.9)	1.4	0.8	3.4
Actuarial adjustments to pension plans				
Changes in actuarial adjustments before reclassification adjustment	(1.3)	2.8	(0.5)	3.7
Net reclassification adjustment for losses included in cost of goods sold	0.4	0.1	0.7	0.3
Net reclassification adjustment for losses included in selling and general and administrative expenses	0.2	0.3	0.5	0.5
Net actuarial adjustments to pension plans	(0.7)	3.2	0.7	4.5
Changes in deferred income tax asset/liability	0.1	(0.8)	(0.2)	(1.1)
Net actuarial adjustments to pension plans	(0.6)	2.4	0.5	3.4
Unrealized investment gains (losses):				
Changes in unrealized investment gains (losses) before reclassification adjustment	252.1	110.3	(123.8)	102.3
Net reclassification adjustment for (gains) losses included in net income	(6.8)	58.0	0.3	62.1
Changes in unrealized investment gains (losses) after reclassification adjustment	245.3	168.3	(123.5)	164.4
Adjustments to intangible assets	(79.2)	(71.0)	56.1	(70.0)
Changes in deferred income tax asset/liability	(58.1)	(34.9)	22.1	(34.3)
Net unrealized gains (losses) on investments	108.0	62.4	(45.3)	60.1
Net change to derive comprehensive income (loss) for the period	132.7	22.6	(36.3)	(11.2)
Comprehensive income (loss)	131.2	(214.9)	(30.8)	(355.1)
Less: Comprehensive income (loss) attributable to the noncontrolling interest:				
Net income (loss)	33.3	(9.2)	74.2	(5.8)
Other comprehensive income (loss)	31.1	(4.4)	(5.0)	(18.3)
Comprehensive income (loss) attributable to the noncontrolling interest	64.4	(13.6)	69.2	(24.1)
Comprehensive income (loss) attributable to the controlling interest	$66.8	$(201.3)	$(100.0)	$(331.0)

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended March 31,	
	2016	2015
	(Unaudited)	
Cash flows from operating activities:		
Net income (loss)	$5.5	$(343.9)
(Loss) income from discontinued operations, net of tax	(48.7)	22.8
Net income (loss) from continuing operations	54.2	(366.7)
Adjustments to reconcile net income (loss) to operating cash flows from continuing operations:		
Depreciation of properties	55.7	64.9
Amortization of intangibles	47.0	41.7
Impairment of intangible assets and goodwill	—	60.2
Impairment of oil and gas properties	75.6	336.6
Loan provision and bad debt expense	15.1	67.9
Stock-based compensation	40.0	34.0
Amortization of debt issuance costs	7.1	7.3
Amortization of debt discount	0.7	2.4
Deferred income taxes	(11.7)	(35.3)
Gain on disposal of oil and gas properties	(105.6)	—
Write-down of assets of business held for sale to fair value less cost to sell	23.5	—
Gain upon gaining control of equity method investment	—	(141.2)
Interest credited/index credits to contractholder account balances	18.2	23.9
Net recognized losses (gains) on investments and derivatives	16.3	(42.8)
Charges assessed to contractholders for mortality and administration	(0.7)	(0.7)
Deferred policy acquisition costs	—	(2.9)
Non-cash increase to cost of goods sold due to acquisition inventory step up	—	3.0
Non-cash restructuring and related charges	—	7.4
Changes in operating assets and liabilities:	(420.4)	(361.2)
Net change in cash due to continuing operating activities	(185.0)	(301.5)
Net change in cash due to discontinued operating activities	168.5	31.4
Net change in cash due to operating activities	(16.5)	(270.1)
Cash flows from investing activities:		
Proceeds from investments sold, matured or repaid	52.5	60.5
Cost of investments acquired	(0.3)	(1.6)
Acquisitions, net of cash acquired	—	(421.5)
Net asset-based loan repayments	74.7	58.6
Capital expenditures	(42.3)	(42.1)
Proceeds from sales of assets	152.6	1.2
Other investing activities, net	(0.7)	(0.6)
Net change in cash due to continuing investing activities	236.5	(345.5)
Net change in cash due to discontinued investing activities	(565.3)	(493.8)
Net change in cash due to investing activities	(328.8)	(839.3)
Cash flows from financing activities:		
Proceeds from issuance of new debt	—	434.9
Repayment of debt, including tender and call premiums	(126.4)	(18.8)
Revolving credit facility activity	8.0	54.3

Debt issuance costs	(1.6)	(8.0)
Purchases of subsidiary stock, net	(49.6)	(31.6)
Contractholder account deposits	2.4	40.1
Contractholder account withdrawals	(71.9)	(71.2)
Dividend paid by subsidiary to noncontrolling interest	(18.2)	(14.1)
Share based award tax withholding payments	(27.3)	(19.1)
Common stock repurchased	—	(22.2)
Other financing activities, net	3.8	2.1
Net change in cash due to continuing financing activities	(280.8)	346.4
Net change in cash due to discontinued financing activities	391.3	734.8
Net change in cash due to financing activities	110.5	1,081.2
Effect of exchange rate changes on cash and cash equivalents	(0.3)	(11.9)
Net change in cash and cash equivalents	(235.1)	(40.1)
Net change in cash and cash equivalents in discontinued operations	(5.5)	272.4
Net change in cash and cash equivalents in continuing operations	(229.6)	(312.5)
Cash and cash equivalents at beginning of period	695.2	742.8
Cash and cash equivalents at end of period	$465.6	$430.3

See accompanying notes to condensed consolidated financial statements.

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HRG GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollars in millions, except per share and unit measures or as otherwise specified)

(1) Description of Business

HRG Group, Inc. ("HRG" and collectively with its respective subsidiaries, the "Company") is a diversified holding company focused on owning businesses that the Company believes can, in the long term, generate sustainable free cash flow or attractive returns on investment. HRG's shares of common stock trade on the New York Stock Exchange ("NYSE") under the symbol "HRG."

The Company's reportable business segments are organized in a manner that reflects how HRG's management views those business activities. Accordingly, the Company currently operates its business in four reporting segments: (i) Consumer Products, (ii) Insurance, (iii) Energy, and (iv) Asset Management. For the results of operations by segment, and other segment data, see Note 15, Segment Data.

Consumer Products Segment

The Consumer Products segment represents the Company's 57.8% controlling interest in Spectrum Brands Holdings, Inc. ("Spectrum Brands"). Spectrum Brands is a diversified global branded consumer products company with positions in seven major product categories: consumer batteries, small appliances, global pet supplies, home and garden control products, personal care products, hardware and home improvement products and global auto care.

Insurance Segment

As of March 31, 2016, the Company's insurance operations were conducted through Front Street Re (Delaware) Ltd., ("Front Street") and its Bermuda and Cayman-based wholly-owned life and annuity reinsurers, Front Street Re Ltd. ("Front Street Bermuda") and Front Street Re (Cayman) Ltd. ("Front Street Cayman"), respectively.

The Company also owns 80.4% of Fidelity & Guaranty Life, ("FGL"). Through its wholly-owned subsidiaries, Fidelity & Guaranty Life Insurance Company ("FGL Insurance") and Fidelity & Guaranty Life Insurance Company of New York, FGL is a provider of various types of fixed annuities and life insurance products in the U.S.

As discussed further in Note 4, Divestitures, on November 8, 2015, Anbang Insurance Group Co., Ltd., a joint-stock insurance company established in the People's Republic of China ("Anbang"), AB Infinity Holding, Inc., a wholly-owned subsidiary of Anbang ("AB Infinity"), and AB Merger Sub, Inc., a wholly-owned subsidiary of AB Infinity ("Merger Sub"), entered into a definitive merger agreement (the "FGL Merger Agreement" and such merger, the "FGL Merger") to acquire FGL for $26.80 per share. As a result of the FGL Merger Agreement, as of March 31, 2016, the Company's ownership interest in FGL has been classified as held for sale in the accompanying Condensed Consolidated Balance Sheets and FGL's operations were classified as discontinued operations in the accompanying Condensed Consolidated Statements of Operations and the accompanying Condensed Consolidated Statements of Cash Flows and reported separately for all periods presented. Prior to the transaction, FGL was included in the Company's Insurance segment. As a result of classifying FGL as held for sale, all segmented information has been adjusted to exclude FGL from the Insurance segment. See Note 4, Divestitures.

Energy Segment

The Energy segment represents the Company's wholly-owned subsidiary, HGI Energy Holdings, LLC ("HGI Energy") and HGI Energy's wholly-owned subsidiary, Compass Production GP, LLC ("Compass GP") and its respective subsidiaries (collectively, "Compass"). Compass is an owner and operator of conventional oil and natural gas properties in East Texas and North Louisiana. Given the inherent decline in the production potential of its existing asset base, Compass' indebtedness and the continued declines in commodity prices, Compass may also pursue a variety of strategies to generate cash flows and reduce its leverage, including pursuing dispositions, acquisitions, other strategic transactions and the issuance of debt and equity securities.

On December 1, 2015, Compass completed the sale of its oil and gas interests located in the Holly, Waskom and Danville Fields in East Texas and North Louisiana (the "Compass Asset Sale"). At closing, proceeds from the transaction, which were approximately $147.5, less estimated expenses of $1.9, were used primarily to reduce borrowings under Compass' existing credit facility (the "Compass Credit Agreement"). For the six months ended March

31, 2016, Compass received an additional $4.5 as a result of resolving certain title and consent matters in connection with the Compass Asset Sale.

During the six months ended March 31, 2016, Compass reduced its borrowing under the Compass Credit Agreement from $327.0 down to $160.0, a reduction of $167.0.

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Asset Management Segment

The Asset Management segment represents the Company's ownership of Salus Capital Partners, LLC ("Salus"), an asset based lender, CorAmerica Capital, LLC ("CorAmerica"), a commercial real estate lender, and Energy & Infrastructure Capital, LLC ("EIC"), a debt capital investment manager focused on direct lending to companies in the North America energy and infrastructure sectors.

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

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements of the Company included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of such information. All such adjustments are of a normal recurring nature. Although the Company believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), have been condensed or omitted pursuant to such rules and regulations. Certain prior amounts have been reclassified or combined to conform to the current year presentation. These reclassifications and combinations had no effect on previously reported net loss attributable to controlling interest or accumulated deficit. These interim financial statements should be read in conjunction with the Company's annual consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015, filed with the SEC on November 20, 2015 (the "Form 10-K"). The results of operations for the six months ended March 31, 2016 are not necessarily indicative of the results for any subsequent periods or the entire fiscal year ending September 30, 2016.

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

At March 31, 2016, the non-controlling interest component of total equity primarily represents the 42.2% share of Spectrum Brands and the 19.6% of FGL not owned by HRG.

Assets held for sale and discontinued operations

The Company reports a business as held for sale when management has approved or received approval to sell the business and is committed to a formal plan, the business is available for immediate sale, the business is being actively marketed, the sale is anticipated to occur during the next twelve months and certain other specified criteria are met, in accordance with Accounting Standard Codification ("ASC") Topic 360, Property, Plant and Equipment ("ASC 360"). A business classified as held for sale is recorded at the lower of its carrying amount or estimated fair value less cost to sell. If the carrying amount of the business exceeds its estimated fair value less cost to sell, a loss is recognized. Assets and liabilities related to a business classified as held for sale are segregated in the current and prior balance sheets in the period in which the business is classified as held for sale. Transactions between the businesses held for sale and businesses held for use that are expected to continue to exist after the disposal are not eliminated to appropriately reflect the continuing operations and balances held for sale. If a business is classified as held for sale after the balance sheet date but before the financial statements are issued or are available to be issued, the business continues to be classified as held and used in those financial statements when issued or when available to be issued.

The Company reports the results of operations of a business as discontinued operations if a disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the business is classified as held for sale, in accordance with ASC 360 and Accounting Standards Update ("ASU") No. 2014-08, Presentation of Financial Statements (Topic 2015) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity ("ASU 2014-08"). The results of discontinued operations are reported in "(Loss) income from discontinued operations, net of tax" in the

accompanying Condensed Consolidated Statements of Operations for current and prior periods commencing in the period in which the business meets the criteria of a discontinued operation, and include any gain or loss recognized on closing or adjustment of the carrying amount to fair value less cost to sell. Transactions between the businesses held for sale and businesses held for use that are expected to continue to exist after the disposal are not eliminated to appropriately reflect the continuing operations and balances held for sale.

The guidance above does not apply to oil and gas properties that are accounted for using the full-cost method of accounting as prescribed by the U.S. SEC (Regulation S-X, Rule 4-10, Financial Accounting and Reporting for Oil and Gas Producing Activities Pursuant to the Federal Securities Laws and the Energy Policy and Conservation Act of 1975) unless the disposal represents all or substantially all of a full cost pool as a discontinued operation.

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Adoption of Recent Accounting Pronouncements

Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). The accounting guidance requires that debt issuance costs related to a recognized debt liability be reported in the accompanying Condensed Consolidated Balance Sheets as a direct deduction from the carrying amount of that debt liability. ASU 2015-03 is effective for annual periods and interim periods within those annual periods beginning after March 31, 2016 and early adoption is permitted. The Company elected to early adopt ASU 2015-03 effective March 31, 2016. The Company applied the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented was adjusted to reflect the period-specific effects of applying the new guidance. The reclassification of unamortized debt issuance costs resulted in reductions in other assets and debt of $102.9 as of September 30, 2015. Other than this reclassification, the adoption of this guidance did not have an impact in the Company's Condensed Consolidated Financial Statements.

Simplifying the Accounting for Measurement-Period Adjustments

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"). This ASU simplifies the presentation of provisional amounts recognized in a business combination during the measurement period (one year from the date of acquisition). Whereas the prior guidance required retrospective adjustment of prior periods, this ASU eliminates this requirement. The Company adopted ASU 2015-16 effective March 31, 2016, resulting in the recognition of adjustments to goodwill of $2.6 during the six months ended March 31, 2016 related to the acquisition of Armored AutoGroup Parent Inc. See Note 8, Goodwill and Intangibles for adjustments to goodwill.

Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"). ASU 2015-17 requires that the presentation of deferred tax assets and liabilities be classified as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. During the six months ended March 31, 2016, the Company elected to retrospectively adopt ASU 2015-17, resulting in a reclassification reducing both deferred tax assets and deferred tax liabilities by $39.1 in the accompanying Condensed Consolidated Balance Sheets at September 30, 2015.

Oil and natural gas properties

Ceiling Test

Pursuant to Rule 4-10(c)(4) of Regulation S-X, Compass is required to compute its ceiling test using the simple average first day of the month spot price for the trailing 12 month period for oil and natural gas at the end of each fiscal quarter. The ceiling test involves comparing the net book value of the full cost pool, after taxes, to the full cost ceiling limitation defined below. In the event the full cost ceiling limitation is less than the full cost pool, Compass is required to record a ceiling test impairment of its oil and natural gas properties. The full cost ceiling limitation is computed as the sum of the present value of estimated future net revenues from Compass' proved reserves by applying the average price as prescribed by the SEC Release No. 33-8995, less estimated future expenditures (based on current costs) to develop and produce the proved reserves, discounted at 10%, plus the cost of properties not being amortized and the lower of cost or estimated fair value of unproved properties included in the costs being amortized, net of income tax effects.

The ceiling test is computed using the simple average first day of the month spot price for the trailing 12 month period using the first day of each month. As of March 31, 2016, the trailing 12 month period month reference prices were $2.40 per Million British Thermal Units ("Mmbtu") for natural gas at Henry Hub ("HH"), and $46.26 per barrel ("Bbl") of oil for West Texas Intermediate ("WTI") at Cushing, Oklahoma. Each of the reference prices for oil and natural gas are further adjusted for quality factors and regional differentials to derive estimated future net revenues. The price used for natural gas liquids was $16.79 per Bbl and was based on the trailing 12 month period month average of realized prices. Under full cost accounting rules, any ceiling test impairments of oil and natural gas properties may not be reversed in subsequent periods. Since Compass does not designate its derivative financial instruments as hedging instruments, Compass is not allowed to use the impacts of the derivative financial instruments in the ceiling test

computations.

During the three and six months ended March 31, 2016, Compass recognized impairments of $21.2 and $75.6, respectively, to its proved oil and natural gas properties due to the continued decline in oil and natural gas prices.

For the three months ended March 31, 2015, Compass recognized impairments to its proved oil and natural gas properties of $146.6 primarily due to a decline in oil and natural gas prices. During the six months ended March 31, 2015, Compass recognized impairments of $336.6 to its proved oil and natural gas properties due to the sharp decline in oil and natural gas prices, as well as the acquisition by HGI Energy of EXCO Resources, Inc.'s ("EXCO") interest in Compass, which triggered the remeasurement of the Company's initial basis in Compass at fair value which increased Compass' full cost pool. The purchase price for the acquisition

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was based on both the income and market approach models which incorporate, among other things, market prices based on the New York Mercantile Exchange ("NYMEX") futures as of the acquisition date, which the Company believes reflects an independent proxy point for determining fair value. The ceiling test, however, requires companies using the full cost accounting method to price period-ending proved reserves using the simple average first day of the month spot price for the trailing 12 month period, which may not be indicative of actual market values. As a result, Compass' full cost pool exceeded its ceiling test limitation at March 31, 2015 resulting in impairment.

As a result of the continued decline in oil and natural gas prices, Compass expects to incur additional impairments to its oil and natural gas properties in fiscal year 2016 if prices do not increase. The possibility and amount of any future impairment is difficult to predict, and will depend, in part, upon future oil and natural gas prices to be utilized in the ceiling test, estimates of proved reserves and future capital expenditures and operating costs.

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

Insurance Subsidiary Financial Information and Regulatory Matters

FGL Insurance's statutory carrying value of Raven Reinsurance Company ("Raven Re"), its wholly-owned subsidiary, reflects the effect of permitted practices Raven Re received to treat the available amount of a letter of credit as an admitted asset which increased Raven Re's statutory capital and surplus by $213.8 and $226.3 at March 31, 2016 and September 30, 2015, respectively. Raven Re is also permitted to follow Iowa prescribed statutory accounting practice for its reserves on reinsurance assumed from FGL Insurance which increased Raven Re's statutory capital and surplus by $2.8 and $2.5 at March 31, 2016 and September 30, 2015, respectively. Without such permitted statutory accounting practices, Raven Re's statutory capital and surplus would be negative $7.2 and negative $33.1 as of March 31, 2016 and September 30, 2015, respectively, and its risk-based capital would fall below the minimum regulatory requirements. The letter of credit facility is collateralized by debt securities rated by the National Association of Insurance Commissioners ("NAIC") as "NAIC-1." If the permitted practice was revoked, the letter of credit could be replaced by the collateral assets with Nomura Bank International plc's consent. FGL Insurance's carrying value of Raven Re at March 31, 2016 and September 30, 2015 was $209.4 and $195.6, respectively.

On November 1, 2013, FGL Insurance re-domesticated from Maryland to Iowa. After re-domestication, FGL Insurance elected to apply Iowa-prescribed accounting practices that permit Iowa-domiciled insurers to report equity call options used to economically hedge fixed indexed annuity ("FIA") index credits at amortized cost for statutory accounting purposes and to calculate FIA statutory reserves such that index credit returns will be included in the reserve only after crediting to the annuity contract. This resulted in a $41.6 increase to statutory capital and surplus at March 31, 2016.

(3) Significant Risks and Uncertainties

Use of Estimates and Assumptions

The preparation of the Company's Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions used.

Concentrations of Investments

As of March 31, 2016 and September 30, 2015, the Company's most significant investment in one industry was the Company's asset-based loan in the electronics industry with a carrying value of $45.4, or 32.6%, and $45.9, or 16.5%, of the Company's investments portfolio, respectively. No investment in a single issuer exceeded 10% of the Company's stockholders' equity as of March 31, 2016 and September 30, 2015.

Concentration of Securities Included in Funds Withheld Receivables

As of March 31, 2016 and September 30, 2015, Front Street’s most significant exposure related to the securities underlying the funds withheld receivables was to the financial sector and the energy, mining and metals industries. As of March 31, 2016 and September 30, 2015, the carrying value of the fixed maturity securities in the financial sector was $258.1, or 15.4%, and $269.7, or 15.8%, respectively, of Front Street’s funds withheld receivables. At March 31, 2016 and September 30, 2015, the holdings in this sector included investments in 105 and 107 different issuers, respectively, with the top ten investments accounting for 42.8% and 41.0%, respectively, of the total holdings in this sector.

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As of March 31, 2016 and September 30, 2015, the carrying value of the fixed maturity securities in the energy, mining and metals industries was $194.9, or 11.6%, and $236.6, or 13.8%, respectively, of Front Street's funds withheld receivables. At March 31, 2016 and September 30, 2015, the holdings in these industries included investments in 93 and 98 different issuers, respectively, with the top ten investments accounting for 39.7% and 39.7%, respectively, of the total holdings in these industries.

There were no holdings in a single issuer included in the funds withheld receivables that exceeded 10% of the Company's stockholders' equity as of March 31, 2016 and September 30, 2015.

Concentrations of Financial and Capital Markets Risk

The Company is exposed to financial and capital markets risk, including changes in interest rates and credit spreads which can have an adverse effect on the Company's results of operations, financial condition and liquidity. The Company expects to continue to face challenges and uncertainties that could adversely affect its results of operations and financial condition.

The Company's exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. A rise in interest rates, in the absence of other countervailing changes, will increase the net unrealized loss position of Front Street's funds withheld receivables and, if long-term interest rates rise dramatically within a six to twelve month time period, certain of the Front Street's reinsured products may be exposed to disintermediation risk. Disintermediation risk refers to the risk that policyholders may surrender their contracts in a rising interest rate environment, requiring Front Street to liquidate assets in an unrealized loss position. This risk is mitigated to some extent by the high level of surrender charge protection provided by the products reinsured by Front Street.

Receivables

The allowance for uncollectible receivables as of March 31, 2016 and September 30, 2015 was $47.6 and $44.0, respectively. The Company has a broad range of customers including many large retail outlet chains, one of which accounts for a significant percentage of its sales volume. This customer represents approximately 13.0% and 12.7% of the Company's "Receivables, net" in the accompanying Condensed Consolidated Balance Sheets at March 31, 2016 and September 30, 2015, respectively.

(4) Divestitures

FGL Merger Agreement

On November 8, 2015, FGL, Anbang, AB Infinity, and Merger Sub entered into the FGL Merger Agreement. Pursuant to the FGL Merger Agreement and subject to the terms and conditions set forth therein, Merger Sub will merge with and into FGL, with FGL continuing as the surviving entity, which will become a direct, wholly-owned subsidiary of AB Infinity and an indirect, wholly-owned subsidiary of Anbang. Pursuant to the FGL Merger Agreement, at the effective time of the FGL Merger, each issued and outstanding share of FGL common stock will be canceled and converted automatically into the right to receive $26.80 per share in cash, without interest, other than any shares of common stock owned by FGL as treasury stock or otherwise or owned by Anbang, AB Infinity or Merger Sub (which will be canceled and no payment will be made with respect thereto), shares of common stock granted pursuant to FGL's equity plans and those shares of common stock with respect to appraisal rights under Delaware law are properly exercised and not withdrawn. The completion of the FGL Merger is subject to the satisfaction of a number of closing conditions, including the receipt of regulatory approvals from the Iowa Insurance Division, New York Department of Financial Services, Vermont Department of Financial Regulation, China Insurance Regulatory Commission, and the Committee on Foreign Investment in the United States ("CFIUS"). On November 25, 2015, FGL obtained the requisite approval for the FGL Merger from the Vermont Department of Financial Regulation. On March 14, 2016, FGL received notification from CFIUS that it had concluded all action under Section 721 of the Defense Production Act of 1950, as amended, and determined that there are no unresolved national security concerns with respect to the FGL Merger. In the event that the FGL Merger Agreement is terminated, under specified circumstances, FGL may be required to pay a termination fee to Anbang and its subsidiaries of $51.5.

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At March 31, 2016, the Company determined that as a result of the FGL Merger Agreement, the Company's ownership interest in FGL met the criteria established by ASC 360 to classify it as held for sale. The following table summarizes the major categories of assets and liabilities classified as held for sale in the accompanying Condensed Consolidated Balance Sheets at March 31, 2016 and September 30, 2015:

	March 31, 2016	September 30, 2015
Assets		
Investments, including loans and receivables from affiliates	$19,697.1	$ 19,206.7
Cash and cash equivalents	496.4	501.8
Accrued investment income	208.5	191.2
Reinsurance recoverable	3,511.7	3,578.7
Deferred tax assets	191.0	194.7
Properties	15.9	14.4
Deferred acquisition costs and value of business acquired, net	1,234.3	1,048.6
Other assets	212.6	248.4
Write-down of assets of business held for sale to fair value less cost to sell	(23.5)	—
Total assets held for sale	$25,544.0	$ 24,984.5
Liabilities		
Insurance reserves	$23,018.8	$ 22,560.1
Debt	300.0	298.3
Accounts payable and other current liabilities	46.4	43.7
Other liabilities	622.9	518.8
Total liabilities held for sale	$23,988.1	$ 23,420.9

The balances included in the accompanying Condensed Consolidated Balance Sheets and in the table above reflect transactions between the businesses held for sale and businesses held for use that are expected to continue to exist after the closing of the FGL Merger. Such transactions are not eliminated to appropriately reflect the continuing operations and balances held for sale. As a result, adjustments to the carrying value of certain intercompany assets recorded by FGL, were reversed upon consolidation in the Company's Condensed Consolidated Financial Statements. Below is a summary of the impact of such intercompany balances in the accompanying Condensed Consolidated Balance Sheets:

	March 31, 2016	September 30, 2015
Assets		
Funds withheld receivable	$993.0	$ 1,058.0
Other assets	15.6	15.9
Assets of business held for sale	1,618.7	1,769.8
Total assets	$2,627.3	$ 2,843.7
Liabilities		
Insurance reserves	$1,170.8	$ 1,226.8
Debt	217.5	330.7
Accounts payable and other current liabilities	1.1	1.6
Other liabilities	12.7	11.0
Liabilities of business held for sale	1,225.2	1,273.6
Total liabilities	$2,627.3	$ 2,843.7

The carrying value of the Company's interest in FGL was higher than the fair value less cost to sell based on the sales price at March 31, 2016 and as a result, the Company recorded a write-down of assets of business held for sale of $23.5 for the three and six months ended March 31, 2016.

In accordance with ASU 2014-08, the Company has determined that the FGL Merger Agreement represented a strategic shift for the Company and, accordingly, has presented the results of operations for FGL as discontinued

operations in the accompanying Condensed Consolidated Statements of Operations.

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The following table summarizes the components of Net (loss) income from discontinued operations in the accompanying Condensed Consolidated Statements of Operations for the three and six months ended March 31, 2016 and 2015:

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
Revenues:				