

HRG GROUP, INC.
Form 10-K
November 23, 2016

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

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 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)

Securities Registered Pursuant to Section 12(b) of the Act:
Title of Each Class Name of Each Exchange on Which Registered
Common Stock, \$0.01 par value New York Stock Exchange
Securities Registered Pursuant to Section 12(g) of the Act:
None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes or No .

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes or No .

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 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 or No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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

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

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant’s most recently completed second fiscal quarter, March 31, 2016, was approximately \$1,498.0 million. For the sole purpose of making this calculation, the term “non-affiliate” has been interpreted to exclude directors and executive officers and other affiliates of the registrant. Exclusion of shares held by any person should not be construed as a conclusion by the registrant, or an admission by any such person, that such person is an “affiliate” of the Company, as defined by applicable securities laws.

There were 200,908,522 shares of the registrant’s common stock outstanding as of November 17, 2016.

Documents Incorporated By Reference: The information required by Part III of this Form 10-K, to the extent not set forth herein or by amendment, is incorporated by reference from the registrant’s definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A on or prior to January 27, 2017.

HRG GROUP, INC.
TABLE OF CONTENTS

	Page
PART I	
Item 1. <u>Business</u>	7
Item 1A. <u>Risk Factors</u>	31
Item 1B. <u>Unresolved Staff Comments</u>	72
Item 2. <u>Properties</u>	72
Item 3. <u>Legal Proceedings</u>	75
Item 4. <u>Mine Safety Disclosures</u>	75
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	76
Item 6. <u>Selected Financial Data</u>	78
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	80
<u>Introduction</u>	80
<u>Results of Operations</u>	83
<u>Consumer Products Segment</u>	86
<u>Insurance Segment</u>	90
<u>Corporate and Other Segment</u>	91
<u>Non-GAAP Measures</u>	92
<u>Liquidity and Capital Resources</u>	95
<u>Contractual Obligations</u>	99
<u>Off-Balance Sheet Arrangements</u>	100
<u>Seasonality</u>	100
<u>Recent Accounting Pronouncements Not Yet Adopted</u>	100
<u>Critical Account Policies and Estimates</u>	103
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	110
Item 8. <u>Financial Statements and Supplementary Data</u>	118
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	118
Item 9A <u>Controls and Procedures</u>	118
Item 9B <u>Other Information</u>	119
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	121
Item 11. <u>Executive Compensation</u>	121
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	121
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	121
Item 14. <u>Principal Accounting Fees and Services</u>	121
PART IV	
Item 15. <u>Exhibits, Financial Statements and Schedules</u>	122
<u>Exhibit Index</u>	122
<u>Signatures</u>	124
<u>Index to Consolidated Financial Statements</u>	F-1
<u>Index to Financial Statements of Certain Subsidiaries Included Pursuant to Rule 3-16 of Regulation S-X</u>	S-1

Table of Contents

PART I

Unless otherwise indicated in Part I of this annual report on Form 10-K (this “Form 10-K”) or the context requires otherwise, in this Form 10-K, references to the “Company,” “HRG,” “we,” “us” or “our” refer to HRG Group, Inc. (formerly, Harbinger Group Inc.) and, where applicable, its consolidated subsidiaries; “FGH” refers to Fidelity & Guaranty Life Holdings, Inc. (formerly, Old Mutual U.S. Life Holdings, Inc.) and, where applicable, its consolidated subsidiaries; “FGL” refers to Fidelity & Guaranty Life (formerly, Harbinger F&G, LLC) and, where applicable, its consolidated subsidiaries; “Fiscal 2013” refers to the fiscal year ended September 30, 2013; “Fiscal 2014” refers to the fiscal year ended September 30, 2014; “Fiscal 2015” refers to the fiscal year ended September 30, 2015; “Fiscal 2016” refers to the fiscal year ended September 30, 2016; “Fiscal 2017” refers to the fiscal year ending September 30, 2017; “Front Street” refers to Front Street Re (Delaware) Ltd. and, where applicable, its consolidated subsidiaries; “Front Street Cayman” refers to Front Street Re Cayman Ltd. and, where applicable, its consolidated subsidiaries; “HGI Funding” refers to HGI Funding, LLC and, where applicable, its consolidated subsidiaries; “Salus” refers to Salus Capital Partners, LLC and, where applicable, its consolidated subsidiaries; “SBI” refers to Spectrum Brands, Inc. and, where applicable, its consolidated subsidiaries; and “Spectrum Brands” refers to Spectrum Brands Holdings, Inc. and, where applicable, its consolidated subsidiaries.

FORWARD-LOOKING STATEMENTS

CAUTIONARY STATEMENT FOR PURPOSES OF THE “SAFE HARBOR” PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

This document contains, and certain oral statements made by our representatives from time to time may contain, forward-looking statements that are subject to risks and uncertainties that could cause actual results, events and developments to differ materially from those set forth in or implied by such statements. These statements are based on the beliefs and assumptions of HRG’s management and the management of HRG’s subsidiaries and affiliates (including target businesses). Forward-looking statements include information concerning possible or assumed future actions, events, results, strategies and expectations, including plans and expectations regarding future acquisitions, dispositions, distributions, and similar activities, and are generally identifiable by use of the words “believes,” “expects,” “intends,” “anticipates,” “plans,” “seeks,” “estimates,” “projects,” “may,” “will,” “could,” “might,” or “continues” or similar expressions. Such forward-looking statements are subject to risks and uncertainties that could cause actual results, events and developments to differ materially from those set forth in or implied by such statements. These statements are based on the beliefs and assumptions of HRG’s management and the management of HRG’s subsidiaries. Factors that could cause actual results, events and developments to differ include, without limitation: that the review of strategic alternatives at HRG will result in a transaction, or if a transaction is undertaken, as to its terms or timing; the ability of HRG’s subsidiaries to close previously announced transactions, including statements regarding the closing of FGL’s merger with Anbang Insurance Group; the ability of HRG’s subsidiaries to generate sufficient net income and cash flows to make upstream cash distributions; the decision of the boards of HRG’s subsidiaries to make upstream cash distributions, which is subject to numerous factors such as restrictions contained in applicable financing agreements, state and regulatory restrictions and other relevant considerations as determined by the applicable board; HRG’s liquidity, which may be impacted by a variety of factors, including the capital needs of HRG’s subsidiaries; capital market conditions; commodity market conditions; foreign exchange rates; HRG’s and its subsidiaries’ ability to identify, pursue or complete any suitable future acquisition, disposition or other strategic opportunities, including realizing such transaction’s expected benefits and the timetable for, completing applicable financial reporting requirements; litigation; potential and contingent liabilities; management’s plans; changes in regulations; taxes; and the risks that may affect the performance of the operating subsidiaries of HRG and those factors listed under the caption “Risk Factors” in this report.

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for all forward-looking statements. All forward-looking statements described herein are qualified by these cautionary statements and there can be no assurance that the actual results, events or developments referenced herein will occur or be realized. HRG does not undertake any obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to

future operation results, except as required by law.

In addition, you should understand that the following important factors, in addition to those discussed in Part I, Item IA. "Risk Factors" of this report, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. You should also understand that many factors described under one heading below may apply to more than one section in which we have grouped them for the purpose of this presentation. As a result, you should consider all of the following factors, together with all of the other information presented herein, in evaluating the business of the Company and our subsidiaries.

HRG

HRG's actual results or other outcomes may differ materially from those expressed or implied by forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

3

Table of Contents

our dependence on distributions from our subsidiaries and our ability to access the capital markets to fund our operations and payments on our debt and other obligations;

the decision of our subsidiaries' boards to make upstream cash distributions, which is subject to numerous factors such as restrictions contained in applicable financing agreements, state and regulatory restrictions and other relevant considerations as determined by the applicable board;

our and our subsidiaries' liquidity, which may be impacted by a variety of factors, including the capital needs of us and our current and future subsidiaries and our current and future subsidiaries' ability to access the capital markets;

the need to provide sufficient capital to our operating businesses;

limitations on our ability to successfully identify suitable acquisition, disposition and other strategic opportunities and to compete for these opportunities with others who have greater resources;

our and our subsidiaries' dependence on certain key personnel;

our and our subsidiaries' ability to attract and retain key employees;

the impact of covenants in the indenture governing our 7.875% Senior Secured Notes due 2019, the covenants in the indenture governing our 7.750% Senior Notes due 2022, the continuing covenants contained in the certificate of designation governing our Series A Participating Convertible Preferred Stock and future financing or refinancing agreements, on our ability to operate our business and finance our pursuit of our business strategy;

our ability to incur new debt and refinance our existing indebtedness;

- the impact on our business and financial condition of our substantial indebtedness and the significant additional indebtedness and other financing obligations we and our subsidiaries may incur;

the impact on us and/or our subsidiaries from interruption or other operational failures in telecommunication, information technology and other operational systems, or a failure to maintain the security, integrity, confidentiality or privacy of sensitive data residing on such systems;

the impact on the aggregate value of our assets and our stock price from changes in the market prices of publicly traded equity interests we hold, particularly during times of volatility in security prices;

- the impact of decisions by our significant stockholders, whose interests may differ from those of our other stockholders, or any of them ceasing to remain significant stockholders;

the effect any interests of our officers, directors, stockholders and their respective affiliates may have in certain transactions in which we are involved;

the impact of additional material charges associated with our oversight of acquired or target businesses and the integration of our financial reporting;

- the impact of restrictive covenants and applicable laws, including securities laws, on our ability to dispose of equity interests we hold;

the impact of potential losses and other risks from changes in the value of our assets;

our ability to effectively increase the size of our organization, if needed, and manage our growth;

the impact of a determination that we are an investment company or personal holding company;

the impact of claims or litigation arising from operations, agreements and transactions, including litigation arising from or involving former subsidiaries;

the impact of expending significant resources in considering acquisition or disposition targets or strategic opportunities that are not consummated;

our and our subsidiaries' ability to successfully integrate current and future acquired businesses into our existing operations and achieve the expected economic benefits;

tax consequences associated with our acquisition, holding and disposition of target companies and assets;

the impact of delays or difficulty in satisfying the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 or negative reports concerning our internal controls;

the impact of the relatively low market liquidity for our shares of Common Stock ("Common Stock");

the impact on the holders of our Common Stock if we issue additional shares of our Common Stock or preferred stock; and

the effect of price fluctuations in our Common Stock caused by general market and economic conditions and a variety of other factors, including factors that affect the volatility of the common stock of any of our publicly-held

subsidiaries.

4

Table of Contents

Spectrum Brands

Spectrum Brands' actual results or other outcomes may differ materially from those expressed or implied by the forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- the impact of Spectrum Brands' substantial indebtedness on its business, financial condition and results of operations;
- the impact of restrictions in Spectrum Brands' debt instruments on its ability to operate its business, finance its capital needs or pursue or expand its business strategies;
- any failure to comply with financial covenants and other provisions and restrictions of Spectrum Brands' debt instruments;
- the impact of expenses resulting from the implementation of new business strategies, divestitures or current and proposed restructuring activities;
- Spectrum Brands' inability to successfully integrate and operate new acquisitions at the level of financial performance anticipated;
- the unanticipated loss of key members of Spectrum Brands' senior management;
- the impact of fluctuations in commodity prices, costs or availability of raw materials or terms and conditions available from suppliers, including suppliers' willingness to advance credit;
- interest rate and exchange rate fluctuations;
- ability to utilize our net operating loss carry-forwards to offset tax liabilities from future taxable income;
- the loss of, significant reduction in, or dependence upon, sales to any significant retail customer(s);
- competitive promotional activity or spending by competitors or price reductions by competitors;
- the introduction of new product features or technological developments by competitors and/or the development of new competitors or competitive brands;
- the effects of general economic conditions, including inflation, recession or fears of a recession, depression or fears of a depression, labor costs and stock market volatility or changes in trade, monetary or fiscal policies in the countries where Spectrum Brands does business;
- changes in consumer spending preferences and demand for Spectrum Brands' products;
- Spectrum Brands' ability to develop and successfully introduce new products, protect its intellectual property and avoid infringing the intellectual property of third parties;
- Spectrum Brands' ability to successfully implement, achieve and sustain manufacturing and distribution cost efficiencies and improvements, and fully realize anticipated cost savings;
 - the cost and effect of unanticipated legal, tax or regulatory proceedings or new laws or regulations (including environmental, public health and consumer protection regulations);
- public perception regarding the safety of products that Spectrum Brands manufactures and sells, including the potential for environmental liabilities, product liability claims, litigation and other claims related to products manufactured by Spectrum Brands and third parties;
- the impact of pending or threatened litigation;
 - the impact of cybersecurity breaches or our actual or perceived failure to protect company and personal data;
- changes in accounting policies applicable to Spectrum Brands' business;
- government regulations;
- the seasonal nature of sales of certain of Spectrum Brands' products;
- the effects of climate change and unusual weather activity; and
- the effects of political or economic conditions, terrorist attacks, acts of war or other unrest in international markets.

FGL and Front Street

FGL's and Front Street's actual results or other outcomes may differ materially from those expressed or implied by forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

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the ability to satisfy the closing conditions, including regulatory approvals, contained in the Agreement and Plan of Merger, dated November 8, 2015 (as amended on November 3, 2016, the “FGL Merger Agreement” and such merger, the “FGL Merger”), by and among FGL, Anbang Insurance Group Co., Ltd., a joint-stock insurance company established in the People’s Republic of China (“Anbang”), AB Infinity Holding, Inc., a Delaware corporation and a wholly-owned subsidiary of Anbang (“AB Infinity”), and AB Merger Sub, Inc., a Delaware corporation and a newly formed, wholly-owned subsidiary of AB Infinity (“Merger Sub”);
the impact on the stock price, business, financial condition and results of operations if the FGL Merger is not

Table of Contents

consummated or not consummated timely;

the impact of the operating restrictions in the FGL Merger Agreement and their impact on FGL;

litigation arising from the FGL Merger;

the inability of FGL's and Front Street's subsidiaries and affiliates to generate sufficient cash to service all of their obligations;

the ability of FGL's and Front Street's subsidiaries to pay dividends;

the impact of restrictions in FGL's debt instruments on its ability to operate its business, finance its capital needs or pursue or expand its business strategies;

the accuracy of FGL's and Front Street's assumptions and estimates;

the accuracy of FGL's and Front Street's assumptions regarding the fair value and future performance of their investments;

FGL and its insurance subsidiaries' abilities to maintain or improve their financial strength ratings;

FGL's and Front Street's and their insurance subsidiaries' potential need for additional capital to maintain their financial strength and credit ratings and meet other requirements and obligations;

FGL's and Front Street's ability to defend themselves against or respond to, potential litigation (including class action litigation), enforcement investigations or increased regulatory scrutiny;

FGL's and Front Street's ability to manage their businesses in a highly-regulated industry, which is subject to numerous legal restrictions and regulations;

regulatory changes or actions, including those relating to regulation of financial services, affecting (among other things) underwriting of insurance products and regulation of the sale, underwriting and pricing of products and minimum capitalization and statutory reserve requirements for insurance companies, or the ability of FGL's and Front Street's insurance subsidiaries to make cash distributions to FGL or Front Street, as applicable (including dividends or payments on surplus notes FGL's subsidiaries issue to FGL);

the impact of the newly finalized Department of Labor "fiduciary" rule on FGL, its products, distribution and business model;

the impact of the anticipated implementation of principle based reserving on FGL's ability to write certain products, manage risk and deploy capital efficiently;

the impact of FGL's reinsurers failing to meet or timely meet their assumed obligations, increasing their reinsurance rates, or becoming subject to adverse developments that could materially adversely impact their ability to provide reinsurance to FGL at consistent and economical terms;

restrictions on FGL's ability to use captive reinsurers;

the impact of interest rate fluctuations on FGL and Front Street and withdrawal demands in excess of FGL's and Front Street's assumptions;

the impact of market and credit risks;

equity market volatility;

credit market volatility or disruption;

changes in the federal income tax laws and regulations which may affect the relative income tax advantages of FGL's products;

increases in FGL's and Front Street's valuation allowance against FGL's and Front Street's deferred tax assets, and restrictions on FGL's and Front Street's ability to fully utilize such assets;

the performance of third-parties, including independent distributors, underwriters, actuarial consultants and other service providers;

interruption or other operational failures in telecommunication, information technology and other operational systems, or a failure to maintain the security, integrity, confidentiality or privacy of sensitive data residing on such systems;

the continued availability of capital required for FGL's and Front Street's insurance subsidiaries to grow;

the impact on FGL's or Front Street's business of new accounting rules or changes to existing accounting rules;

the risk that FGL's or Front Street's exposure to unidentified or unanticipated risk is not adequately addressed by their risk management policies and procedures;

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general economic conditions and other factors, including prevailing interest and unemployment rate levels and stock and credit market performance;

FGL's ability to protect its intellectual property;

difficulties arising from FGL's and Front Street's outsourcing relationships;

6

Table of Contents

- the impact on FGL’s and Front Street’s business of natural and of man-made catastrophes, pandemics, computer viruses, network security breaches, and malicious and terrorist acts;
- FGL’s and Front Street’s ability to compete in a highly competitive industry;
- FGL’s and Front Street’s ability to maintain competitive policy expense costs;
- adverse consequences if the independent contractor status of FGL’s independent insurance marketing organizations (“IMOs”) is successfully challenged;
- FGL’s ability to attract and retain national marketing organizations and independent agents;
- the potential adverse tax consequences to FGL if FGL generates passive income in excess of operating expenses;
- the significant operating and financial restrictions contained in FGL’s debt agreements, which may prevent FGL from capitalizing on business opportunities;
- the impact on FGL and Front Street of non-performance of loans originated by Salus; and
- the ability to maintain or obtain approval of the Iowa Insurance Division (“IID”) and other regulatory authorities as required for FGL’s operations and those of its insurance subsidiaries.

Salus

Salus’ actual results or other outcomes may differ materially from those expressed or implied by the forward-looking statements contained herein due to a variety of important factors, including, without limitation, the following:

- Salus’ ability to recover amounts that are contractually owed to it and its ability to adequately address the various risks it faces in executing its business strategy;
- Salus’ ability to orderly and efficiently wind-down its business and to address the variety of risks associated with such a process, including litigation risk, regulatory compliance and retention of employees, management, agents and advisors required for such wind-down; and
- Salus’ ability to address a variety of other risks associated with its business, including the risk of fraud or theft, operational errors and systems malfunctions.

Item 1. Business

OVERVIEW

HRG

Overview

We are a holding company that conducts its operations through its operating subsidiaries. As of September 30, 2016, our principal operating subsidiaries include the following: (i) Spectrum Brands, our subsidiary that provides global branded consumer products; (ii) FGL, our subsidiary that provides life insurance and annuity products; and (iii) Front Street, our subsidiary engaged in the business of providing long-term reinsurance, including reinsurance to the specialty insurance sector of fixed, deferred and payout annuities.

We were incorporated in Delaware in 1954 under the name Zapata Corporation and reincorporated in Nevada in April 1999 under the same name. On December 23, 2009, we reincorporated in Delaware under the name Harbinger Group Inc. Effective March 9, 2015, we changed our name from Harbinger Group Inc. to HRG Group, Inc. Our Common Stock trades on the New York Stock Exchange (“NYSE”) under the symbol “HRG.” Our principal executive offices are located at 450 Park Avenue, 29th Floor, New York, New York 10022.

We currently operate our business in two reporting segments: Consumer Products and Insurance. For the results of operations by segment and other segment data, see Part IV, Item 15. “Note 25, Segment and Geographic Data” to HRG’s Consolidated Financial Statements included elsewhere in this report.

For detailed information about revenues, operating income and total assets of HRG and its operating subsidiaries, see the financial statements beginning on page F-1 and S-1, respectively, of this report.

Strategy

During Fiscal 2016, we took certain actions to streamline our business and simplify our holding company structure. For instance, we sold our interest in Compass Production Partners (“Compass”), our former subsidiary that was engaged

in the business of owning and operating oil and natural gas assets, and commenced the wind-down of Salus, our subsidiary that was engaged in the financing and asset management business. We also sold our interest in CorAmerica Capital, LLC (“CorAmerica”), our former subsidiary engaged in the business of asset management, and wound-down Energy & Infrastructure Capital LLC, our former subsidiary engaged in the business of asset management. In addition, FGL, our insurance subsidiary, entered into the FGL Merger Agreement pursuant to which at the effective time of the FGL Merger, the issued and outstanding shares of FGL common stock

7

Table of Contents

will be cancelled and converted automatically into the right to receive \$26.80 in cash, without interest. See Part I, Item 1. “Business-FGL-FGL Merger” of this report for further information.

For Fiscal 2017, we decided to initiate a process to explore and evaluate strategic alternatives available to the Company with a view towards maximizing shareholder value. We believe that HRG is an excellent company that owns great businesses that have generated strong performance over a long period of time. We believe that we are well-positioned to take advantage of the opportunities that may be available to us through the review of strategic alternatives. Strategic alternatives may include, but are not limited to, a merger, sale or other business combination involving the Company or its assets. We are under no pressure to transact and have not set a definitive schedule to complete our review of strategic alternatives. There can be no assurance that this process will result in a transaction, or if a transaction is undertaken, as to its terms or timing.

Competition

We and our subsidiaries face intense competition from a variety of sources in carrying our respective businesses and achieving our objectives. Many of our competitors may be better established, possess greater human and other resources than us, and our financial resources may be relatively limited when compared with many of these competitors. Any of these factors may place us at a competitive disadvantage in contrast to our competitors. See elsewhere in this report for discussion of competition faced by our subsidiaries. See Part I, Item 1A. “Risk Factors-Risks Related to HRG-Our subsidiaries operate in highly-competitive industries, limiting their ability to gain or maintain their positions in their respective industries.”

Employees

At September 30, 2016, HRG employed 21 persons and HRG’s subsidiaries employed approximately 16,000 persons. In the normal course of business, HRG and its subsidiaries use contract personnel to supplement their employee base to meet business needs. As of September 30, 2016, none of HRG’s employees were represented by labor unions or covered by collective bargaining agreements. See the remainder of this report for additional information regarding the employees of HRG’s subsidiaries. HRG believes that its overall relationship with its employees is good.

Available Information

Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) are made available free of charge on or through our website at www.hrggroup.com as soon as reasonably practicable after such reports are filed with, or furnished to, the Securities and Exchange Commission (the “SEC” or the “Commission”). The information on our website is not, and shall not be deemed to be, part of this report or incorporated into any other filings we make with the Commission.

You may read and copy any materials we file with the Commission at the Commission’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The SEC also maintains a website that contains our reports, proxy statements and other information at www.sec.gov. In addition, copies of our Corporate Governance Guidelines, Audit Committee Charter, Compensation Committee Charter, Nominating and Corporate Governance Committee Charter, Code of Ethics, Code of Ethics for our Chief Executive and Senior Financial Officers and Executive Sessions policy are available at our website at www.hrggroup.com under “Investor Relations-Corporate Governance.” Copies will also be provided to any HRG stockholder upon written request to Investor Relations, HRG Group, Inc. at 450 Park Avenue, 29th Floor, New York, NY 10022 or via electronic mail at investorrelations@hrggroup.com. For additional information regarding Spectrum Brands and FGL, including information in addition to that included in HRG’s SEC reports and public announcements, we direct you to Spectrum Brands’ and FGL’s public announcements and filings made with the SEC. You should follow and read the SEC filings, press releases and other public statements made by Spectrum Brands, FGL and their respective representatives, as we expect that they will make additional information available through these channels. See Part I, Item 1. “Business-Our Operating Subsidiaries-Spectrum Brands-Available Information” for additional information regarding Spectrum Brands and Part I, Item 1. “Business-Our Operating Subsidiaries-FGL-Available Information” for additional information regarding FGL.

OUR OPERATING SUBSIDIARIES

Spectrum Brands

Spectrum Brands, a Delaware corporation and a subsidiary of HRG, is a diversified global branded consumer products company. Spectrum Brands' common stock trades on the NYSE under the symbol "SPB." As of September 30, 2016, HRG owned approximately 57.8% of Spectrum Brands' common stock.

Spectrum Brands manufactures, markets and/or distributes its products in approximately 160 countries in the North America ("NA"); Europe, Middle East & Africa ("EMEA"); Latin America ("LATAM") and Asia-Pacific ("APAC") regions through a variety of trade channels, including retailers, wholesalers and distributors, original equipment manufacturers ("OEMs"),

Table of Contents

construction companies, and hearing aid professionals. Spectrum Brands enjoys strong name recognition in its regions under Spectrum Brands' various brands and patented technologies across multiple product categories. Spectrum Brands manages its business in five vertically integrated, product lines: (i) Global Batteries & Appliances ("GBA"); (ii) Hardware & Home Improvement ("HHI"); (iii) Global Pet Supplies ("PET"); (iv) Home and Garden ("H&G"); and (v) Global Auto Care ("GAC"). Geographic strategic initiatives and financial objectives are determined at the corporate level. Each segment is responsible for implementing defined strategic initiatives and achieving certain financial objectives and has a general manager responsible for sales and marketing initiatives and the financial results for all product lines within that segment.

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

See Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of the operating results of Spectrum Brands.

Spectrum Brands' Product Lines

Global Batteries and Appliances (GBA)

Spectrum Brands' consumer batteries product category consists of alkaline batteries, zinc carbon batteries, nickel metal hydride (NiMH) rechargeable batteries and battery chargers primarily under the Rayovac and VARTA brands.

Additionally, Spectrum Brands manufactures alkaline batteries for third parties who sell under their own private labels. Spectrum Brands also offers a broad line of battery-powered portable lighting products including flashlights and lanterns under the Rayovac and VARTA brands, and other proprietary brand names pursuant to licensing arrangements with third parties. Spectrum Brands manufactures and sells hearing aid batteries under several brand names and private labels for many major hearing aid device manufacturers. Other specialty battery products include camera batteries, lithium batteries, silver oxide batteries, keyless entry batteries, portable chargers and coin cells for use in watches, cameras, calculators, communications equipment, and medical instruments.

Spectrum Brands' small appliances product category consists of small kitchen appliances under the Black & Decker, Russell Hobbs, George Foreman, Juiceman and Breadman brands, including toaster ovens, toasters, sandwich makers, coffeemakers, coffee grinders, can openers, electric knives, grills, deep fryers, food choppers, food processors, slow cookers, hand mixers, blenders, juicers, bread makers, kettles, rice cookers and steamers. Spectrum Brands also sells small home product appliances, including hand-held irons, vacuum cleaners, air purifiers, clothes shavers and heaters, primarily under the Black & Decker and Russell Hobbs brands.

Spectrum Brands' personal care product category includes a broad line of electric shaving and grooming products under the Remington brand name, including men's rotary and foil shavers, beard and mustache trimmers, body, nose and ear trimmers, women's shavers, haircut kits and intense pulsed light hair removal systems. Other personal care products include hand-held dryers, curling irons, straightening irons, brush irons, hair setters, facial brushes, skin appliances, electric toothbrushes and hair accessories.

Spectrum Brands manages its GBA sales teams by geographic region and product category. Spectrum Brands sells primarily to large retailers, online retailers, wholesalers, distributors, warehouse clubs, food and drug chains and specialty trade or retail outlets such as consumer electronics stores, department stores, discounters and other specialty stores. Spectrum Brands maintains separate sales teams to service (i) its retail sales and distribution channels; (ii) its hearing aid professionals channel; and (iii) its industrial distributors and OEM sales and distribution channel.

International distribution varies by region and is often executed on a country-by-country basis. Spectrum Brands utilizes a network of independent brokers to service participants in selected distribution channels.

Hardware and Home Improvement (HHI)

Spectrum Brands' lockset product category includes a broad range of residential locksets and door hardware including knobs, levers, deadbolts, handle sets and electronics under three main brands: (i) Kwikset, residential door hardware sold primarily in the U.S.; (ii) Weiser, residential door hardware sold primarily in Canada; and (iii) Baldwin, luxury

residential door hardware. Spectrum Brands' residential lockset products also incorporate a patented SmartKey technology that enables consumers to easily rekey their locks without hiring a locksmith. The product category also includes electronic and connected locks such as Kevo Bluetooth enabled deadbolt which turns a smart phone into a key and allows authorized users to open their deadbolt by simply touching the lock or remotely with connected devices.

Spectrum Brands' plumbing product category includes kitchen, bath and shower faucets, as well as other plumbing products and fixtures through Spectrum Brands' Pfister brand, which brings showroom styles to the mass market at affordable prices and offers a lifetime warranty on all of its products. Pfister seeks to differentiate itself from the competition through its breadth of styles and finishes, along with innovations designed to meet a variety of consumer, plumber and builder needs.

Spectrum Brands' hardware product category includes hinges, security hardware, screen and storm door products, garage door hardware, window hardware and floor protection under the National Hardware and Stanley brand names throughout the U.S.

Table of Contents

and Canada.

On October 1, 2014, Spectrum Brands acquired privately owned Tell Manufacturing, Inc. (“Tell”), a U.S. manufacturer and distributor of commercial doors, locks and hardware. Tell provides the HHI product line with an established commercial security sales position and a platform to expand Spectrum Brands’ patented SmartKey and Kevo residential lock technologies into commercial channels. The Tell acquisition also added doors and hollow metal door manufacturing capabilities, a strategically important adjacent category.

The sales force of the HHI business is aligned by customer and geographic region, and sells primarily to large retailers, home improvement centers, hardware stores, non-retail distributors, home builders, commercial contractors, and other retailers.

Global Pet Supplies (PET)

Spectrum Brands’ aquatics product category includes a broad line of consumer and commercial aquatics products, including integrated aquarium kits, stand-alone tanks and stands, aquatics equipment such as filtration systems, heaters, and pumps, and aquatics consumables such as fish food, water treatments and conditioners. Spectrum Brands’ largest aquatics brands are Tetra, Marineland, Whisper, Jungle and Instant Ocean.

Spectrum Brands’ companion animal product category includes a variety of specialty pet products including rawhide chews, dog and cat treats, small animal food and treats, clean-up and training aid products, health and grooming aids, bedding products, and consumable accessories including privacy tents, litter carpets, crystal litter cartridges, charcoal filters, corn-based litter and replaceable waste receptacles. Spectrum Brands’ largest specialty pet brands include FURminator, 8-in-1, Dingo, Nature’s Miracle, Wild Harvest and Littermaid.

Spectrum Brands’ pet food product category includes wet and dry pet food for dogs and cats under the IAMS, Eukanuba and 8-in-1 brand names in European markets. On December 31, 2014, Spectrum Brands completed the acquisition of Procter & Gamble’s European pet food business, consisting of the IAMS and Eukanuba brands for dogs and cats.

Additionally, on January 16, 2015, Spectrum Brands acquired Salix Animal Health, a vertically integrated producer and distributor of natural rawhide dog chews, treats and snacks, offering a comprehensive line of chews made from beef hides, pork, chicken, beef and other various proteins.

Spectrum Brands’ PET sales force is aligned by customer type, geographic region and product category, and sells primarily to mass merchandisers, grocery stores and drug chains, pet superstores, independent pet stores, warehouse clubs and other specialty retailers. International distribution varies by region and is often executed on a country-by-country basis.

Home and Garden Improvement (H&G)

Spectrum Brands’ controls product category includes a variety of outdoor insect and weed control solutions, and animal repellents under the brand names Spectracide, Black Flag, Garden Safe, EcoLogic and Liquid Fence. Spectrum Brands’ line of outdoor control solutions are designed to assist consumers in controlling insects, weeds and animals when tackling lawn and landscaping projects themselves.

Spectrum Brands’ household product category includes a broad array of household pest control solutions, such as spider and scorpion killers; roach and ant killers; flying insect killers; insect foggers; wasp and hornet killers; bedbug, flea and tick control products; and roach and ant baits. Spectrum Brands also offers powerful rodent traps and rodenticides with discreet designs that are easy to refill and reuse.

Spectrum Brands’ repellents product category includes personal use pesticides for protection from various outdoor nuisance pests, especially mosquitoes. These products include both personal repellents in a variety of formulas such as aerosols, lotions, pump sprays and wipes to match consumers’ needs; as well as area repellents such as yard sprays, citronella candles and patio lanterns to allow consumers to enjoy the outdoors without bothersome pests. The brands in the insect repellents category are Cutter and Repel.

The H&G business sales force is geographically aligned with Spectrum Brands’ key customers, and sells primarily to home improvement centers, mass merchandisers, dollar stores, hardware stores, home and garden distributors, and food and drug retailers, primarily in the U.S.

Global Auto Care (GAC)

Spectrum Brands entered the GAC product line through its acquisition of Armored Auto Group (“AAG”) on May 21, 2015, which consists of products within the automotive aftermarket appearance, performance chemicals, and do-it-yourself automotive air conditioner recharge product categories.

Spectrum Brands’ appearance product category includes protectants, wipes, tire and wheel care products, glass cleaners, leather care products, air fresheners and washes designed to clean, shine, refresh and protect interior and exterior automobile surfaces under the brand name Armor All.

Spectrum Brands’ performance product category includes STP branded fuel and oil additives, functional fluids and automotive appearance products that benefit from a rich heritage in the car enthusiast and racing scenes.

Spectrum Brands’ A/C recharge product category includes do-it-yourself automotive air conditioner recharge products under

Table of Contents

the A/C PRO brand name, along with other refrigerant and oil recharge kits, sealants and accessories.

The GAC business sales force is geographically aligned with key customers and supply chains, and sells primarily to big-box auto, auto specialty retail, mass retailers, food and drug retailers, and small regional and convenience store retailers. Spectrum Brands' small regional and convenience store customers are serviced by brokers and distributors. International distribution varies by region and is often executed on a country-by-country basis.

Sales, Distribution and Competition

Spectrum Brands sells its products through a variety of trade channels, including retailers, wholesalers and distributors, hearing aid professionals, construction companies and OEMs. Spectrum Brands' sales generally are made through the use of individual purchase orders, consistent with industry practice. Retail sales of the consumer products that Spectrum Brands markets have been increasingly consolidated on a worldwide basis into a small number of regional and national mass merchandisers and e-commerce companies that generally have strong negotiating power with their suppliers. A significant percentage of Spectrum brands' sales are attributable to a limited group of retailer customers, including (in alphabetical order), Amazon, Argos, Autozone, Dollar General, Lowe's, PetCo, PetSmart, Target, The Home Depot, and Wal-Mart. Spectrum Brands' sales to its largest customer, Wal-Mart, represented approximately 15% of its consolidated net sales for Fiscal 2016. No other customer accounted for more than 10% of Spectrum Brands' consolidated net sales in Fiscal 2016.

Factors influencing product sales include brand name recognition, perceived quality, price, performance, product packaging, design innovation, and consumer confidence and preferences as well as creative marketing, promotion and distribution strategies. Spectrum Brands competes for limited shelf space and consumer acceptance based on location and product segment. Spectrum Brands also competes with its retail customers, who use their own private label brands, and with distributors and foreign manufacturers of unbranded products, typically at lower prices. Spectrum Brands attempts to address these competitive challenges through a portfolio of well-recognized consumer product brands, business relationships with global retailers, distributors and wholesalers, an expansive distribution network, innovative new products, packaging and technologies and an experienced management team. See Part I, Item 1A. "Risk Factors-Risk Related to Spectrum Brands' Business-Spectrum Brands participates in very competitive markets and it may not be able to compete successfully, causing Spectrum Brands to lose market share and sales."

Within Spectrum Brands' GBA product line, primary competitors for consumer batteries include Energizer Holdings, Inc. (Energizer); Berkshire Hathaway (Duracell); Matsushita (Panasonic) and private label brands of major retailers. Primary competitors for small appliances include Newell Brands (Oster, Sunbeam, Mr. Coffee, Crockpot, Rival, Breville), General Electric (GE), De'Longhi America (DeLonghi, Kenwood, Braun), SharkNinja f/k/a Euro-Pro (Shark, Ninja), NACCO Industries (Hamilton Beach, Proctor Silex), SEB S.A.(T-fal, Krups, Rowenta), Whirlpool Corporation (Kitchen Aid, Waring), Conair Corporate (Cuisinart), Koninklijke Philips N.V. (Philips), Glen Dimplex (Morphy Richards) and private label brands for major retailers. Primary competitors in personal care include are Koninklijke Philips Electronics N.V. (Norelco), The Procter & Gamble Company (Braun), Conair Corporation, Wahl Clipper Corporation and Helen of Troy Limited.

Within Spectrum Brands' HHI product line, primary competitors in residential locksets include Allegion (Schlage) and private label import brands such as Defiant. Primary competitors for hardware include The Hillman Group, Hampton Hardware, Crown Bolt and private label competitors. Primary competitors for plumbing include Kohler, Masco, Fortune Brands (Moen), American Standard, Glacier Bay, AquaSource, and the private label brands of major retailers. Primary competitors in Spectrum Brands' PET product line are Mars Corporation, The Hartz Mountain Corporation and Central Garden & Pet Company which all sell a comprehensive line of pet supplies that compete across Spectrum Brands' product categories. The pet supplies product category is highly fragmented with no competitor holding a substantial market share and consists of small companies with limited product lines.

Primary competitors in Spectrum Brands' H&G product line are The Scotts Miracle-Gro Company (Scotts, Ortho, Roundup, Miracle-Gro, Tomcat); Central Garden & Pet (AMDRO, Sevin) and Bayer A.G. (Bayer Advanced), S.C. Johnson & Son, Inc. (Raid, OFF!); and Henkel AG & Co. KGaA (Combat).

Primary competitors in Spectrum Brands' GAC product line include Valvoline, Prestone, Turtle Wax, Black Magic, Energizer, Newell Brands and private label brands. Spectrum Brands also encounter competition from similar and alternative products, many of which are produced and marketed by major multinational or national companies,

including Mothers, Meguiars, Lucas, and Sea Foam.

Seasonality

On a consolidated basis Spectrum Brands' financial results are approximately equally weighted across the fiscal quarters, however, sales of certain product categories tend to be seasonal. Sales from Spectrum Brands' GBA segment, primarily from consumer battery and electric personal care product categories tend to increase during the December holiday season (the Spectrum Brands' first fiscal quarter), while small appliances sales increase from July through December primarily due to the increased demand by customers in the late summer for "back-to-school" sales (the Spectrum Brands' fourth fiscal quarter) and in December for the holiday season. Sales from Spectrum Brands' HHI segment primarily increase during the spring and summer construction period (the Spectrum Brands' third and fourth fiscal quarters). Sales from Spectrum Brands' PET segment remain fairly consistent

Table of Contents

throughout the year with little variation. Sales from Spectrum Brands' H&G segment and GAC segment typically peak during the first six months of the calendar year (the Spectrum Brands' second and third fiscal quarters) due to customer seasonal purchasing patterns and timing of promotional activities.

Spectrum Brands' sales by quarter as a percentage of annual net sales during Fiscal 2016, 2015, and 2014 were as follows:

Percentage of Annual Net Consumer Products Sales Fiscal Quarter Ended	Fiscal		
	2016	2015	2014
First Quarter	24%	23%	25%
Second Quarter	24%	23%	23%
Third Quarter	27%	26%	25%
Fourth Quarter	25%	28%	27%

Manufacturing, Raw Materials and Suppliers

The principal raw materials used in manufacturing include zinc, electrolytic manganese dioxide used in Spectrum Brands' consumer batteries products; brass and steel used in the manufacturing of Spectrum Brands' HHI products, and refrigerant R-134a used in Spectrum Brands' GAC A/C recharge products, that are sourced either on a global or regional basis. The prices of these raw materials are susceptible to fluctuations due to supply and demand trends, energy costs, transportation costs, government regulations and tariffs, changes in currency exchange rates, price controls, general economic conditions and other unforeseen circumstances. Spectrum Brands has regularly engaged in forward purchase and hedging derivative transactions in an attempt to effectively manage the raw material costs Spectrum Brands expects to incur over the next 12 to 24 months.

Substantially all of Spectrum Brands' rechargeable batteries and chargers, portable lighting products, personal care products and small appliances are manufactured by third party suppliers that are primarily located in the Asia-Pacific region. Spectrum Brands maintains ownership of most of the tooling and molds used by its suppliers.

Spectrum Brands continually evaluates its manufacturing facilities' capacity and related utilization. As a result of such analyses, Spectrum Brands has closed a number of manufacturing facilities during the past five years. In general, Spectrum Brands believes its existing facilities are adequate for its present and foreseeable needs.

Patents and Trademarks

Spectrum Brands uses and maintains a number of patents, trademarks, brand names and trade names that are, in the aggregate, important to its businesses. Spectrum Brands seeks trademark protection in the U.S. and in foreign countries. Spectrum Brands' most significant registered trademarks are:

Product Line	Trademarks
GBA	Rayovac, VARTA, Remington, Black & Decker, George Foreman, Russell Hobbs, Farberware, Toastmaster, Breadman, Juiceman
HHI	Kwikset, Weiser, Baldwin, National Hardware, Stanley, Fanal, Pfister, Tell
PET	Tetra, 8-in-1, Dingo, Nature's Miracle, Wild Harvest, Marineland, Furminator, Littermaid, Birdola, Healthy Hide, Digest-eeze, Iams, Eukanuba
H&G	Spectracide, Cutter, Hot Shot, Real Kill, Ultra Kill, Black Flag, Liquid Fence, Rid-a-bug, TAT, Garden Safe, Repel
GAC	Armor All, STP, A/C PRO

Spectrum Brands owns or licenses from third parties a significant number of patents and patent applications throughout the world relating to products that Spectrum Brands sells and manufacturing equipment that Spectrum Brands uses. Spectrum Brands holds a license that expires in March 2022 for certain alkaline battery designs, technology and manufacturing equipment from Matsushita Electrical Industrial Co., Ltd. ("Matsushita"), to whom Spectrum Brands pays a royalty. Through its 56% ownership interest in Shaser, Inc., Spectrum Brands has patented technology that is used in its i-Light and i-Light Reveal product line. Through ownership of its HHI segment, Spectrum Brands owns the patented SmartKey technology, which enables customers to easily rekey their locks without hiring a locksmith.

Spectrum Brands acquired the rights to the VARTA trademark in the consumer battery category and Johnson Controls Inc. acquired rights to the trademark in the automotive battery category from VARTA AG. VARTA AG continues to have rights to use the trademark with travel guides and industrial batteries and VARTA Microbattery GmbH has the right to use the trademark with micro batteries. Spectrum Brands is a party to a Trademark and Domain Names Protection and Delimitation Agreement that governs ownership and usage rights and obligations of the parties relative to the VARTA trademark.

Spectrum Brands licenses the Black & Decker brand in North America, Latin America (excluding Brazil) and the Caribbean for four core categories of household appliances: beverage products, food preparation products, garment care products and cooking products through a trademark license agreement with The Black and Decker Corporation (“BDC”) through December 2018. Under the agreement, Spectrum Brands agreed to pay BDC royalties based on a percentage of sales, with minimum annual royalty payments of \$15.0 million through calendar year 2018. The agreement also requires Spectrum Brands to comply with maximum annual return rates for products. If BDC does not agree to renew the license agreement, Spectrum Brands will have

Table of Contents

18 months to transition out of the brand name with no minimum royalty payments during such transition period and BDC has agreed to not compete in the four categories for five years after the end of the transition period. Upon request, BDC may elect to extend the license to use the Black & Decker brand to certain additional product categories. BDC has approved several extensions of the license to additional categories and geographies.

Spectrum Brands owns the rights to use the Remington trademark for electric shavers, shaver accessories, grooming products and personal care products; and Remington Arms Company, Inc. (“Remington Arms”) owns the rights to use the trademark for firearms, sporting goods and products for industrial use, including industrial hand tools. The terms of a 1986 agreement between Remington Products, LLC and Remington Arms provides for the shared rights to use the trademark on products which are not considered “principal products of interest” for either company. Spectrum Brands retains the trademark for nearly all products which Spectrum Brands believes can benefit from the use of the brand name in its distribution channels.

Spectrum Brands licenses the Stanley and Black & Decker marks and logos in the HHI segment for such products as residential locksets, builder’s hardware, padlocks, and door hardware through a transitional trademark license agreement with Stanley Black & Decker Corporation. Under the agreement and as part of the acquisition of the HHI Business in December 2012, Spectrum Brands has a royalty-free, fully paid license to use certain trademarks, brand names and logos in marketing its products and services for five years after the completion of the HHI Business acquisition. Upon termination of the agreement, HHI will be obligated to discontinue any and all use of the trademarks as designated by the arrangement within 180 days following the termination.

Research and Development

Spectrum Brands’ research and development strategy is focused on new product development and performance enhancements of its existing products. Spectrum Brands plans to continue to use its strong brand names, established customer relationships and significant research and development efforts to introduce innovative products that offer enhanced value to consumers through new designs and improved functionality. During Fiscal 2016, 2015 and 2014, Spectrum Brands invested \$58.7 million, \$51.3 million and \$47.9 million, respectively, in product research and development.

Governmental Regulations and Environmental Matters

Due to the nature of Spectrum Brands’ operations, its facilities are subject to a broad range of federal, state, local and foreign legal and regulatory provisions relating to the environment, including those regulating the discharge of materials into the environment, the handling and disposal of solid and hazardous substances and wastes and the remediation of contamination associated with the releases of hazardous substances at Spectrum Brands’ facilities. Spectrum Brands believes that compliance with the federal, state, local and foreign laws and regulations to which it is subject will not have a material effect upon Spectrum Brands’ capital expenditures, financial condition, earnings or competitive position.

From time to time, Spectrum Brands has been required to address the effect of historic activities on the environmental condition of its properties. Spectrum Brands has not conducted invasive testing at all facilities to identify all potential environmental liability risks. Given the age of its facilities and the nature of its operations, it is possible that material liabilities may arise in the future in connection with Spectrum Brands’ current or former facilities. If previously unknown contamination of property underlying or in the vicinity of its manufacturing facilities is discovered, Spectrum Brands could incur material unforeseen expenses, which could have a material adverse effect on its financial condition, capital expenditures, earnings and competitive position. Although Spectrum Brands is currently engaged in investigative or remedial projects at some of its facilities, Spectrum Brands does not expect that such projects, taking into account established accruals, will cause Spectrum Brands to incur expenditures that are material to its business, financial condition or results of operations; however, it is possible that Spectrum Brands’ future liability could be material.

Spectrum Brands has been, and in the future may be, subject to proceedings related to its disposal of industrial and hazardous material at off-site disposal locations or similar disposals made by other parties for which Spectrum Brands is held responsible as a result of its relationships with such other parties. In the U.S., these proceedings are under the Federal Comprehensive Environmental Response, Compensation and Liability Act of 1980 (“CERCLA”) or similar state laws that hold persons who “arranged for” the disposal or treatment of such substances strictly liable for costs

incurred in responding to the release or threatened release of hazardous substances from such sites, regardless of fault or the lawfulness of the original disposal. Liability under CERCLA is typically joint and several, meaning that a liable party may be responsible for all costs incurred in investigating and remediating contamination at a site. As a practical matter, liability at CERCLA sites is shared by all of the viable responsible parties. Spectrum Brands occasionally is identified by federal or state governmental agencies as being a potentially responsible party for response actions contemplated at an off-site facility. At the existing sites where Spectrum Brands has been notified of its status as a potentially responsible party, it is either premature to determine whether its potential liability, if any, will be material or Spectrum Brands does not believe that its liability, if any, will be material. Spectrum Brands may be named as a potentially responsible party under CERCLA or similar state laws for other sites not currently known to it, and the costs and liabilities associated with these sites may be material.

It is difficult to quantify with certainty the potential financial impact of actions regarding expenditures for environmental matters, particularly remediation, and future capital expenditures for environmental control equipment. Nevertheless, based upon the information currently available, Spectrum Brands believes that its ultimate liability arising from such environmental matters,

Table of Contents

considering established accruals of \$4.4 million for estimated liabilities at September 30, 2016 should not be material to its business or financial condition.

Electronic and electrical products that Spectrum Brands sells in Europe, particularly products sold under the Remington brand name, VARTA battery chargers, certain portable lighting and all of Spectrum Brands' batteries, are subject to regulation in European Union ("EU") markets under three key EU directives. The first directive is the Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment ("RoHS") which took effect in EU member states beginning July 1, 2006. RoHS prohibits companies from selling products which contain certain specified hazardous materials in EU member states. Spectrum Brands believes that compliance with RoHS does not have a material effect on its capital expenditures, financial condition, earnings or competitive position. The second directive is entitled the Waste of Electrical and Electronic Equipment ("WEEE"). WEEE makes producers or importers of particular classes of electrical goods financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. WEEE assigns levels of responsibility to companies doing business in EU markets based on their relative market share. WEEE calls on each EU member state to enact enabling legislation to implement the directive. To comply with WEEE requirements, Spectrum Brands has partnered with other companies to create a comprehensive collection, treatment, disposal and recycling program. As EU member states pass enabling legislation Spectrum Brands currently expects its compliance system to be sufficient to meet such requirements. Spectrum Brands' current estimated costs associated with compliance with WEEE are not significant based on its current market share. However, Spectrum Brands continues to evaluate the impact of the WEEE legislation as EU member states implement guidance and as its market share changes and, as a result, actual costs to Spectrum Brands could differ from its current estimates and may be material to its business, financial condition or results of operations. The third directive is the Directive on Batteries and Accumulators and Waste Batteries, which was adopted in September 2006 and went into effect in September 2008 (the "Battery Directive"). The Battery Directive bans heavy metals in batteries by establishing maximum quantities of those heavy metals in batteries and mandates waste management of batteries, including collection, recycling and disposal systems. The Battery Directive places the costs of such waste management systems on producers and importers of batteries. The Battery Directive calls on each EU member state to enact enabling legislation to implement the directive. Spectrum Brands currently believes that compliance with the Battery Directive does not have a material effect on its capital expenditures, financial condition, earnings or competitive position. EU member states have adopted enabling legislation required by the directive and issued additional guidance. Spectrum Brands will continue to evaluate the impact of the Battery Directive and its enabling legislation.

Certain of Spectrum Brands' products and facilities in each of its business segments are regulated by the United States Environmental Protection Agency (the "EPA") and the United States Food and Drug Administration (the "FDA") or other federal consumer protection and product safety agencies and are subject to the regulations such agencies enforce, as well as by similar state, foreign and multinational agencies and regulations. For example, in the U.S., all products containing pesticides must be registered with the EPA and, in many cases, similar state and foreign agencies before they can be manufactured or sold. Spectrum Brands' inability to obtain or the cancellation of any registration could have an adverse effect on its business, financial condition and results of operations. The severity of the effect would depend on which products were involved, whether another product could be substituted and whether its competitors were similarly affected. Spectrum Brands attempts to anticipate regulatory developments and maintain registrations of, and access to, substitute chemicals and other ingredients. Spectrum Brands may not always be able to avoid or minimize these risks.

The Food Quality Protection Act ("FQPA") established a standard for food-use pesticides, which is that a reasonable certainty of no harm will result from the cumulative effect of pesticide exposures. Under the FQPA, the EPA is evaluating the cumulative effects from dietary and non-dietary exposures to pesticides. The pesticides in certain of Spectrum Brands' products continue to be evaluated by the EPA as part of this program. It is possible that the EPA or a third party active ingredient registrant may decide that a pesticide Spectrum Brands uses in its products will be limited or made unavailable to Spectrum Brands. Spectrum Brands cannot predict the outcome or the severity of the effect of the EPA's continuing evaluations of active ingredients used in its products.

Certain of Spectrum Brands' products and packaging materials are subject to regulations administered by the FDA. Among other things, the FDA enforces statutory prohibitions against misbranded and adulterated products, establishes ingredients and manufacturing procedures for certain products, establishes standards of identity for certain products, determines the safety of products and establishes labeling standards and requirements. In addition, various states regulate these products by enforcing federal and state standards of identity for selected products, grading products, inspecting production facilities and imposing their own labeling requirements.

Certain A/C products containing R-134a are subject to regulation in the U.S. markets under the EPA's Significant New Alternative Policy ("SNAP Program"), which implements international agreements restricting the use of certain refrigerants. The EPA has identified use of R-134a in new automotive air conditioning systems as an approved use up to the 2020 automotive model year. The EPA has not yet approved a replacement refrigerant under the SNAP program for sale in small cans for automotive use for automobiles produced beginning with the 2021 model year, and future rulemakings from the agency are anticipated. Spectrum Brands currently believes that compliance with current and future SNAP regulations will not have a material effect on its capital expenditures, financial condition, earnings or competitive position. However, until such time as future regulations are issued and future alternate refrigerants are approved for sale in small cans, a full evaluation of these costs cannot be completed by

Table of Contents

Spectrum Brands. Spectrum Brands will continue to evaluate the impact of the SNAP Program as the EPA issues additional guidance.

Employees

Spectrum Brands had approximately 15,700 full-time employees worldwide as of September 30, 2016. Approximately 14% of its total labor force is covered by collective bargaining agreements. There are 5 collective bargaining agreements that will expire during Spectrum Brands' Fiscal 2017, which cover approximately 38% of the labor force under collective bargaining agreements, or approximately 5% of its total labor force. Spectrum Brands believes that its overall relationship with its employees is good.

Available Information

For information regarding Spectrum Brands, see the remaining section of this report. For additional information regarding Spectrum Brands, including information in addition to that included in HRG's SEC reports and public announcements, we direct you to Spectrum Brands' announcements and filings made with the SEC, including Spectrum Brands' Annual Report on Form 10-K for Fiscal 2016. You should follow and read the SEC filings, press releases and other public statements made by Spectrum Brands and its representatives, as we expect that they will make additional information available through these channels.

Spectrum Brands' Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Exchange Act, are made available free of charge on or through Spectrum Brands' website at www.spectrumbrands.com as soon as reasonably practicable after such reports are filed with, or furnished to, the Commission.

The information on Spectrum Brands' website is not, and shall not be deemed to be, part of this report or incorporated into any other filings HRG or Spectrum Brands makes with the SEC and Spectrum Brands' reports are not and shall not be deemed to be part of this report. You may read and copy any materials Spectrum Brands files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains Spectrum Brands' reports, proxy statements and other information at www.sec.gov.

FGL

The FGL Business

FGL, a Delaware corporation and subsidiary of HRG, is a provider of various types of fixed annuities and life insurance products in the U.S. Based in Des Moines, Iowa, and Baltimore, Maryland, FGL operates its annuity and life insurance operations in the U.S. through its subsidiaries FGH, Fidelity & Guaranty Life Insurance Company ("FGL Insurance") and Fidelity & Guaranty Life Insurance Company of New York ("FGL NY Insurance"). For over 50 years, FGL has been helping middle-income Americans prepare for retirement and unexpected loss of life. FGL's focus on the middle-income market gives it access to significant, underserved market niches and drives FGL's product development. As of September 30, 2016, FGL had approximately 700,000 policyholders counting on the safety and protection features of FGL's fixed annuity and life insurance products.

FGL offers various types of fixed annuities and life insurance products. Fixed annuities represent a retirement and savings tool which FGL's customers rely on for principal protection and predictable income streams. In addition, FGL's life insurance products provide its customers with a complementary product that allows them to build on their savings and assign payment of a death benefit to a designated beneficiary upon the policyholder's death. Currently, FGL's most popular products are fixed indexed annuities ("FIAs") that tie contractual returns to specific market indices, such as the Standard & Poor's Ratings Services ("S&P") 500 Index. The benefit of FIAs to FGL's customers is to provide a portion of the gains of an underlying market index while providing principal protection. FGL believes this mix of "some upside but limited downside" fills the need for middle-income Americans who must save for retirement but who want to limit the risk of decline in their savings. In addition to FIAs, FGL also sells indexed universal life policies ("IULs") and other fixed annuities.

In Fiscal 2016, FIAs generated approximately 71% of FGL's total sales and the remaining 29% of sales was primarily generated from fixed annuity sales during the year. FGL invests the annuity premiums in fixed income securities and options and hedge FGL's risk, predominantly using call options on the S&P 500 Index, for the pass through of the

market index returns to its policyholders. The majority of FGL's products contain provisions that permit FGL to annually adjust the formula by which index credits are provided in response to changing market conditions. In addition, FGL's annuity contracts generally either cannot be surrendered or include surrender charges that discourage early redemptions.

The FGL Merger

On November 8, 2015, FGL, Anbang, AB Infinity and AB Merger Sub entered into the FGL Merger Agreement, which was amended on November 3, 2016. Pursuant to the FGL Merger Agreement and subject to the terms and conditions set forth therein, at closing 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.

Table of Contents

Pursuant to the terms of the FGL Merger Agreement, the parties have set February 8, 2017 as the outside termination date for the completion of the FGL Merger. Accordingly, unless the outside termination date is extended, either party may terminate the FGL Merger Agreement if the closing of the FGL Merger does not occur prior to February 8, 2017. In addition, the FGL Merger Agreement contains certain provisions giving each of AB Infinity and FGL rights to terminate the FGL Merger Agreement under certain circumstances. Upon termination of the FGL Merger Agreement, under specified circumstances, FGL may be required to pay a termination fee to AB Infinity of \$51.45 million. FGL and Anbang are committed to securing the remaining regulatory approvals and seek to close the FGL Merger as expeditiously as possible, however, the closing of the FGL Merger and the timing thereof is subject to the regulatory review and approval process, none of which can be assured.

At the closing of the FGL Merger, each issued and outstanding share of FGL common stock will be cancelled and converted automatically into the right to receive \$26.80 in cash, without interest (the “FGL Merger Consideration”), 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 cancelled and no payment will be made with respect thereto), shares of common stock granted pursuant to FGL’s Equity Plan (as defined in the FGL Merger Agreement) and those shares of common stock with respect to which appraisal rights under Delaware law are properly exercised and not withdrawn. The FGL Merger Agreement permits FGL to pay out a regular quarterly cash dividend on its Common Stock prior to the closing of the transaction in an amount not in excess of \$0.065 per share, per quarter (the per share amount of FGL’s most recently declared quarterly dividend).

At the effective time of the FGL Merger, each (i) option to purchase shares of common stock (a “FGL Stock Option”), and (ii) restricted share of common stock, in each case whether vested or unvested, will become fully vested and automatically converted into the right to receive a cash payment equal to the product of (1) the number of shares subject to the award multiplied by (2) the FGL Merger Consideration (less the exercise price per share in the case of FGL Stock Options). In addition, at the effective time of the FGL Merger, each stock option (“FGH Stock Option”) and restricted stock unit relating to shares of FGH whether vested or unvested, will become fully vested and automatically converted into the right to receive a cash payment equal to the product of (A) the number of shares of FGH stock subject to the award multiplied by (B) \$152.44 (less the exercise price in the case of such FGH Stock Options), and each dividend equivalent held in respect of a share of FGH stock (“FGL DER”), whether vested or unvested, will become fully vested and automatically converted into the right to receive a cash payment equal to the amount accrued with respect to such FGL DER.

Pursuant to the FGL Merger Agreement, the consummation of the FGL Merger is subject to satisfaction or waiver of certain closing conditions, including, among others: (i) receipt of approval (by vote or written consent) of at least a majority of FGL’s shareholders; (ii) an information statement with respect to the FGL Merger having been filed and cleared by the SEC and having been sent to stockholders of FGL (in accordance with Regulation 14C under the Exchange Act) at least twenty (20) days prior to the closing; (iii) obtaining the requisite approvals from the IID, New York State Department of Financial Services (“NYDFS”), Vermont Department of Financial Regulation, China Insurance Regulatory Commission and the Committee on Foreign Investment in the United States and (iv) the absence of any law or order enacted, issued or enforced that is in effect and that makes the consummation of the FGL Merger illegal, prevents, prohibits, restrains or enjoins the consummation of the FGL Merger. The FGL Merger Agreement does not contain any financing condition or contingency.

On November 8, 2015, FS Holdco II Ltd. (“FS Holdco”), a wholly-owned subsidiary of the Company holding a majority of the issued and outstanding shares of FGL’s common stock, delivered to FGL a written consent, adopting, authorizing, accepting and approving in all respects the FGL Merger Agreement and the transactions contemplated thereby, including the FGL Merger. On March 29, 2016, FGL filed a definitive information statement with the SEC. 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. The parties are not required to file a notification of the FGL Merger under the Hart-Scott Rodino Antitrust Improvements Act of 1976, as amended, due to an available exemption.

The FGL Merger Agreement includes customary representations, warranties and covenants of FGL, Anbang, AB Infinity and Merger Sub. Among other things, FGL and its subsidiaries are required to conduct their respective businesses and operations in the ordinary course of business until the FGL Merger is consummated. Pursuant to the FGL Merger Agreement, Anbang has agreed to cause the full and complete performance by AB Infinity of all of its obligations pursuant to the terms of the FGL Merger Agreement and in the event AB Infinity does not fulfill all of its obligations pursuant to the terms of the FGL Merger Agreement, Anbang will unconditionally and irrevocably perform such unperformed obligations of AB Infinity pursuant to the terms of the FGL Merger Agreement. The foregoing description of the FGL Merger Agreement and the transactions contemplated thereby does not purport to be complete. Interested parties should review the FGL Merger Agreement any other information or statement filed or furnished by FGL with the SEC. See Part I, Item 1. "Business-FGL-FGL Available Information."

Table of Contents

Strategy

FGL seeks to grow its business by pursuing a set of strategies aimed at delivering sustainable and profitable growth. These strategies include: (i) taking action to protect sales in FGL's existing markets, strengthen its business and providing a platform for sustainable growth, (ii) building off FGL's foundational initiatives and creating a more engaging, customer-focused experience, (iii) leveraging FGL's product capabilities for additional distribution and (iv) focusing on initiatives that FGL expects will deliver target profits.

Competition

FGL's ability to compete is dependent upon many factors which include, among other things, its ability to develop competitive and profitable products, its ability to maintain stable relationships with its contracted IMOs, its ability to maintain low unit costs and its maintenance of adequate financial strength ratings from rating agencies. Principal competitive factors for FIAs are initial crediting rates, reputation for renewal crediting action, product features, brand recognition, customer service, cost, distribution capabilities and financial strength ratings of the provider. Competition may affect, among other matters, both business growth and the pricing of FGL's products and services. Principal competitive factors for IULs are based on service and distribution channel relationships, price, brand recognition, financial strength ratings of its insurance subsidiaries and financial stability. See Part I, Item 1A. "Risk Factors-Risks Related to FGL's and Front Street's Businesses- FGL and Front Street operate in highly competitive industries, which could limit their abilities to gain or maintain their respective positions in the industries and could materially adversely affect their business, financial condition and results of operations."

Products

FGL's experience designing and developing annuities and life insurance products is expected to allow FGL to continue to introduce innovative products and solutions designed to meet customers' changing needs. FGL works hand-in-hand with its distributors to devise the most suitable product solutions for the ever-changing market. FGL believes that, on a practical basis, FGL has a unique understanding of the safety, accumulation, protection, and income needs of middle-income Americans.

Annuity Products

Through FGL's insurance subsidiaries, FGL issues a broad portfolio of deferred annuities (fixed indexed and fixed rate annuities) and immediate annuities. A deferred annuity is a type of contract that accumulates value on a tax deferred basis and typically begins making specified periodic or lump sum payments a certain number of years after the contract has been issued. An immediate annuity is a type of contract that begins making specified payments within one annuity period (e.g., one month or one year) and typically pays principal and earnings in equal payments over some period of time.

Deferred Annuities

FIAs

FGL's FIAs allow contract owners the possibility of earning interest based on the performance of a specified market index, predominantly the S&P 500 Index, without risk to principal. The contracts include a provision for a minimum guaranteed surrender value calculated in accordance with applicable law. A market index tracks the performance of a specific group of stocks representing a particular segment of the market, or in some cases an entire market. For example, the S&P 500 Composite Stock Price Index is an index of 500 stocks intended to be representative of a broad segment of the market. All FIA products allow policyholders to allocate funds once a year among several different crediting strategies, including one or more index-based strategies and a traditional fixed rate strategy. High surrender charges apply for early withdrawal, typically seven to fourteen years after purchase.

The value to the contractholder of an FIA contract is equal to the sum of deposits paid, premium bonuses (described below), index credits, up to a cap and a participation rate based on the annual appreciation (based in certain situations on annual point-to-point, monthly point-to-point or monthly average calculations) in a recognized market index less any fees for riders. Caps generally range from 3.0% to 6.0% when measured annually and 1.0% to 3.0% when measured monthly and participation rates generally range from 30.0% to 100.0% of the performance of the applicable market index. The cap can be reset annually. Certain riders allow for a contractholder to increase their cap for a set fee. As this fee is fixed, the contractholder may lose principal if the index credits received do not exceed the amount of such fee.

Approximately 88.5% of the FIA sales for Fiscal 2016 involved “premium bonuses” or vesting bonuses. For premium bonuses, FGL increased the initial annuity deposit by a specified premium bonus of 2.0% to 3.0% and a vesting bonus of 1.0% to 9.0%. The vesting bonuses are earned over time, which increases the account value when the bonus is settled. FGL made compensating adjustments in the commission paid to the agent or the surrender charges on the policy to offset the premium bonus.

As of September 30, 2016, 82.0% of FGL’s FIA contracts were issued with a guaranteed minimum withdrawal benefit (“GMWB”) rider. With this rider, a contract owner can elect to receive guaranteed payments for life from the FIA contract without requiring the owner to annuitize the FIA contract value. The amount of the living income benefit available is determined by the growth in the policy's benefit base value as defined in the FIA contract rider. Typically this accumulates for 10 years based on a guaranteed rate of 3.3% to 7.3%. Guaranteed withdrawal payments may be stopped and restarted at the election of the contract owner. Some

Table of Contents

of the FIA contract riders that FGL offers include an additional death benefit or an increase in benefit amounts under chronic health conditions. Rider fees range from 0.4% to 0.5%.

As of September 30, 2016, the distribution of the FIA account values by cap rate and by strategy was as follows (dollars in millions):

Cap rate	0% to 3%	3% to 5%	> 5%	Total
1 year gain trigger	\$294.0	\$262.2	\$32.8	\$589.0
1-2 year monthly average	412.9	807.9	193.9	1,414.7
1-3 year monthly point-to-point	3,911.1	159.5	—	4,070.6
1-3 year annual point-to-point	1,089.9	1,818.4	352.5	3,260.8
3 year step forward	—	24.6	126.6	151.2
Total	\$5,707.9	\$3,072.6	\$705.8	\$9,486.3

Fixed Rate Annuities

Fixed rate annuities include annual reset and multi-year rate guaranteed policies. Fixed rate annual reset annuities issued by FGL have an annual interest rate (the “crediting rate”) that is guaranteed for the first policy year. After the first policy year, FGL has the discretionary ability to change the crediting rate once annually to any rate at or above a guaranteed minimum rate. Fixed rate multi-year guaranteed annuities (“MYGAs”) are similar to fixed rate annual reset annuities except that the initial crediting rate is guaranteed for a specified number of years before it may be changed at its discretion. For Fiscal 2016, FGL sold \$93.9 million in fixed rate annual reset annuities and \$536.0 million of fixed rate MYGAs. As of September 30, 2016, crediting rates on outstanding (i) single-year guaranteed annuities generally ranged from 1.5% to 6.0% and (ii) MYGAs ranged from 1.0% to 5.7%. The average crediting rate on all outstanding fixed rate annuities at September 30, 2016, was 3.3%.

As of September 30, 2016, the distribution of the fixed rate annuity account values by crediting rate was as follows (dollars in millions):

Crediting rate	1% to 2%	2% to 3%	3% to 4%	4% to 5%	5% to 6%
Account value	\$43.5	\$196.3	\$2,764.4	\$435.1	\$48.4

As of September 30, 2016, the MYGAs expiring guaranty account values, net of reinsurance by year were as follows:

Duration by Year:	Multi-Year Rate Guaranteed Annuities Account Value
2017	\$ 644.2
2018	269.6
2019	769.2
2020	201.7
2021	569.7
Thereafter	81.2
Total	\$ 2,535.6

Withdrawal Options for Deferred Annuities

After the first year following the issuance of a deferred annuity policy, holders of deferred annuities are typically permitted penalty-free withdrawals up to 10% of the prior year’s value, subject to certain limitations. Withdrawals in excess of allowable penalty-free amounts are assessed a surrender charge if such withdrawals are made during the penalty period of the deferred annuity policy. The penalty period typically ranges from seven to fourteen years for FIAs and three to ten years for fixed rate annuities. This surrender charge initially ranges from 0.0% to 14.8% of the contract value for FIAs and 0.0% to 13.0% of the contract value for fixed rate annuities and generally decreases by approximately one to two percentage points per year during the penalty period. The average surrender charge is 8.2%

for FGL's FIAs and 5.6% for FGL's fixed rate annuities as of September 30, 2016.

18

Table of Contents

The following table summarizes FGL's deferred annuity account values and surrender charge protection as of September 30, 2016 (dollars in millions):

SURRENDER CHARGE EXPIRATION BY YEAR:	Fixed and Fixed-Index Annuities Account Value	Percent of Total	Weighted Average Surrender Charge
Out of surrender charge	\$ 2,393.8	15.7 %	— %
2016	202.6	1.3 %	3.3 %
2017 - 2018	2,441.0	16.0 %	5.0 %
2019 - 2020	1,769.4	11.6 %	7.2 %
2021 - 2022	1,963.8	12.9 %	8.5 %
Thereafter	6,479.1	42.5 %	10.6 %
	\$ 15,249.7	100.0%	

The policyholder may elect to take the proceeds of the surrender either in a single payment or in a series of payments over the life of the policyholder or for a fixed number of years (or a combination of these payment options). In addition to the foregoing withdrawal rights, policyholders may also elect to have additional withdrawal rights by purchasing a GMWB. These riders provide a GMWB, regardless of index performance, for the life of the contract. However, the benefit may vary based on performance.

Immediate Annuities

FGL also sells single premium immediate annuities (or "SPIAs"), which provide a series of periodic payments for a fixed period of time or for the life of the policyholder, according to the policyholder's choice at the time of issue. The amounts, frequency and length of time of the payments are fixed at the outset of the annuity contract. SPIAs are often purchased by persons at or near retirement age who desire a steady stream of payments over a future period of years. The following table presents the deposits (also known as "sales") on annuity policies issued by FGL for the fiscal years ended September 30, 2016, 2015, and 2014 as well as reserves required by accounting principles generally accepted in the United States of America ("U.S. GAAP Reserves") as of September 30, 2016, 2015 and 2014 (dollars in millions):

Products	September 30, 2016		September 30, 2015		September 30, 2014	
	Deposits on Annuity Policies	U.S. GAAP Reserves	Deposits on Annuity Policies	U.S. GAAP Reserves	Deposits on Annuity Policies	U.S. GAAP Reserves
Fixed Indexed Annuities	\$ 1,860.5	\$ 13,148.3	\$ 2,184.7	\$ 12,093.5	\$ 1,451.4	\$ 10,766.6
Fixed Rate Annuities	539.1	3,565.6	210.5	3,248.7	707.9	3,192.3
Single Premium Immediate Annuities	28.4	2,917.4	15.5	2,956.4	9.7	3,201.6
Total	\$ 2,428.0	\$ 19,631.3	\$ 2,410.7	\$ 18,298.6	\$ 2,169.0	\$ 17,160.5

Life Insurance

FGL currently offers IUL insurance policies and has previously sold term and whole life insurance products. Holders of universal life insurance policies earn returns on their policies which are credited to the policyholder's cash value account. The insurer periodically deducts its expenses and the cost of life insurance protection from the cash value account. The balance of the cash value account is credited interest at a fixed rate or returns based on the performance of a market index, or both, at the option of the policyholder, using a method similar to that described above for FIAs. Almost all of the life insurance policies in force, except for the return of premium benefits on term life insurance products, are subject to an arrangement with Wilton Reassurance Company ("Wilton Re").

As of September 30, 2016, the distribution of the retained IUL account values by cap rate and by strategy was as follows (dollars in millions):

Cap rate	2.5% - 5%	5% - 7.5%	7.5% - 10%	10% - 12.5%	12.5% +	Total
1 year annual point-to-point, Gold Index	\$—	\$—	\$—	\$—	\$ 23.3	\$ 23.3

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1 year monthly point-to-point, S&P Index	32.2	—	—	—	—	32.2
1 year annual point-to-point with 100% par rate, S&P Index	12.9	6.4	25.5	104.0	71.5	220.3
1 year annual point-to-point with 140% par rate, S&P Index	2.5	3.2	15.0	—	—	20.7
Total	\$47.6	\$ 9.6	\$40.5	\$104.0	\$ 94.8	\$296.5

19

Table of Contents

Distribution

The sale of FGL's products typically occurs as part of a four-party, three stage sales process between FGL Insurance, an IMO, the agent and the customer. FGL Insurance designs, manufactures, issues, and services the product. The IMOs will usually sign contracts with multiple insurance carriers to provide their agents with a broad and competitive product portfolio. The IMO will discuss product options over the phone with agents about to meet with clients. The IMO staff will also provide assistance to the agent during the selling and application process. The agent may get customer leads from the IMOs. The agent will conduct a fact find and present suitable product choices to the customers. FGL monitors each distribution partner for pricing metrics, mortality, and persistency, as well as market conduct and suitability.

Within this business model, FGL offers its products through a network of approximately 200 IMOs, representing approximately 35,000 agents, and identifies its most important IMOs, those who FGL believes either have shown or have the potential to show the ability to generate significant production for FGL, as "Power Partners." FGL currently has 32 Power Partners, comprised of 21 annuity IMOs and 11 life insurance IMOs. During Fiscal 2016, these Power Partners accounted for approximately 95.0% of its annual sales volume. FGL believes that its relationships with these IMOs are strong. The average tenure of the top ten Power Partners is approximately 14 years.

FGL's Power Partners play an important role in the development of its products. Over the last ten years, the majority of FGL's best-selling products have been developed with its Power Partners. FGL intends to continue to have the Power Partners play an important role in the development of its products in the future, which FGL believes it provides it with integral feedback throughout the development process and assists FGL with competing for "shelf space" of new design launches.

The top five states for the distribution of FGL Insurance products in 2016 were California, Texas, Florida, New Jersey and Michigan, which together accounted for nearly 44.8% of FGL Insurance's premiums.

Investments

FGL embraces a long-term conservative investment philosophy, investing nearly all the insurance premiums FGL receives in a wide range of fixed income interest-bearing securities.

FGL's internal asset management team manages the bulk of the investment portfolio, and with respect to certain asset classes, FGL utilizes experienced third party companies, including FGL's affiliates. As of September 30, 2016, 71.2% of FGL's \$19.3 billion fixed maturity investment portfolio was managed by its employees, with the 28.8% balance managed by third parties. FGL's investment strategy is designed to (i) achieve strong absolute returns; (ii) provide consistent yield and investment income; and (iii) preserve capital.

In addition to active management of assets, FGL's Investments department is also responsible for defining portfolio strategy, managing its asset/liability profile and hedging its product guarantees.

The types of assets in which FGL may invest are influenced by various state laws, which prescribe qualified investment assets applicable to insurance companies. Additionally, FGL defines risk tolerance across a wide range of factors, including credit risk, liquidity risk, concentration (issuer and sector) risk, and caps on specific asset classes, which in turn establish conservative risk thresholds.

FGL's investment portfolio consists of high quality fixed maturities, including publicly issued and privately issued corporate bonds, municipal and other government bonds, asset-backed securities ("ABS"), residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS") and commercial mortgage loans ("CMLs"). FGL also maintains holdings in floating rate, and less rate-sensitive investments, including senior tranches of collateralized loan obligations ("CLOs"), non-agency RMBS, and various types of ABS. It is FGL's expectation that its investment portfolio will broaden in scope and diversity to include other asset classes held by life and annuity insurance writers. FGL also has a small amount of equity holdings through its funding arrangement with the Federal Home Loan Bank of Atlanta.

Portfolio Activity

Over the last year, FGL continued to work with its internal asset management team and third party asset managers to broaden the portfolio's exposure to include United States dollar ("USD") denominated emerging market bonds, highly rated preferred stocks and hybrids and structured securities including ABS.

Derivatives

FGL's FIA contracts permit the holder to elect to receive a return based on an interest rate or the performance of a market index, most typically based on the S&P 500 Index. FGL purchases derivatives consisting predominantly of call options and, to a lesser degree, futures contracts on the equity indices underlying the applicable policy. These derivatives are used to fund the index credits due to policyholders under the FIA contracts based upon policyholders' contract elections. The majority of all such call options are one-year options purchased to match the funding requirements underlying the FIA contracts. On the respective anniversary dates of the applicable FIA contracts, the market index used to compute the annual index credit under the applicable FIA contract is reset. At such time, FGL purchases new one-, two-, three-, or five-year call options to fund the next index credit. FGL attempts to manage the cost of these purchases through the terms of its FIA contracts, which permit FGL to change caps or participation rates, subject to certain guaranteed minimums that must be maintained. The change in the fair value of the call

Table of Contents

options and futures contracts is generally designed to offset the equity market related change in the fair value of the FIA contract's related reserve liability. The call options and futures contracts are marked to fair value with the change in fair value included as a component of Net investment gains (losses). The change in fair value of the call options and futures contracts includes the gains and losses recognized at the expiration of the instruments' terms or upon early termination and the changes in fair value of open positions.

Outsourcing

FGL outsources the following functions to third-party service providers:

- new business administration;
- service of existing policies;
- underwriting administration of life insurance applications;
- call centers;
- information technology development and maintenance;
- investment accounting and custody; and
- hosting of financial systems.

FGL closely manages its outsourcing partners and integrates their services into its operations. FGL believes that outsourcing such functions allows it to focus capital and FGL employees on its core business operations and perform differentiating functions, such as investment, actuarial, product development and risk management functions. In addition, FGL believes an outsourcing model provides predictable pricing, service levels and volume capabilities and allows it to benefit from technological developments that enhance its customer self-service and sales processes.

FGL outsources its new business and existing policy administration for annuity and life products to Transaction Applications Group, Inc. Under this arrangement, Transaction Applications Group, Inc. manages all of FGL's call center and processing requirements. FGL's current agreement expires in March 31, 2017.

FGL has partnered with CRL-Plus ("CRL-Plus") to implement FGL's life insurance underwriting policies. Under the terms of the arrangement, CRL-Plus has assigned FGL a team of underwriters with Fellow Life Management Institute designations. Underwriting guidelines for each product are established by FGL's Chief Underwriter in collaboration with FGL's actuarial department. FGL's Chief Underwriter and actuarial department work closely with the applicable reinsurance company to establish or change guidelines. Adherence to underwriting guidelines is managed at a case level through daily underwriting audits conducted by FGL's Chief Underwriter as well as the CRL-Plus lead underwriter. Every three years, underwriting audits are conducted by FGL's reinsurers. FGL's current agreement with CRL-Plus expires in December 2016.

FGL believes that it has a good relationship with its principal outsource service providers.

Ratings

FGL's access to funding and its related cost of borrowing, the attractiveness of certain of its products to customers and requirements for derivatives collateral posting are affected by FGL's credit ratings and insurance financial strength ratings, which are periodically reviewed by the rating agencies. Financial strength ratings and credit ratings are important factors affecting public confidence in an insurer and its competitive position in marketing products.

As of September 30, 2016, A.M. Best Company ("A.M. Best"), Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and S&P Global Ratings ("S&P") issued financial strength credit and/or ratings and outlook statements regarding FGL and its wholly owned insurance subsidiaries, FGL Insurance and FGL NY Insurance. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness. Financial strength ratings represent the opinions of rating agencies regarding the ability of an insurance company to meet its financial obligations under an insurance policy and generally involve quantitative and qualitative evaluations by rating agencies of a company's financial condition and operating performance. Generally, rating agencies base their financial strength ratings upon information furnished to them by the insurer and upon their own investigations, studies and assumptions. Financial strength ratings are based upon factors of concern to policyholders, agents and intermediaries and are not directed toward the protection of investors. Credit and financial strength ratings are not recommendations to buy, sell or hold securities and they may be revised or revoked at any time at the sole discretion of the rating organization.

Following the announcement of the proposed FGL Merger, the rating organizations have undertaken a review of FGL's debt ratings and FGL's insurance company subsidiaries' financial strength ratings. The rating organizations may take

various actions, positive or negative. Such actions are beyond FGL's control and FGL cannot predict what those actions may be and the timing thereof.

In addition to the financial strength ratings, rating agencies use an "outlook statement" to indicate a medium or long term trend which, if continued, may lead to a rating change. A positive outlook indicates a rating may be raised and a negative outlook indicates a rating may be lowered. A stable outlook is assigned when ratings are not likely to be changed. A developing outlook is assigned when a rating may be raised, lowered, or affirmed. Outlooks should not be confused with expected stability of the

Table of Contents

issuer's financial or economic performance. A rating may have a "stable" outlook to indicate that the rating is not expected to change, but a "stable" outlook does not preclude a rating agency from changing a rating at any time without notice.

A.M. Best, Fitch, Moody's and S&P review their ratings of insurance companies from time to time. There can be no assurance that any particular rating will continue for any given period of time or that it will not be changed or withdrawn entirely if, in their judgment, circumstances so warrant. While the degree to which ratings adjustments will affect sales and persistency is unknown, FGL believes if its ratings were to be negatively adjusted for any reason, FGL could experience a material decline in the sales of its products and the persistency of its existing business. See Part I, Item 1A. "Risk Factors-Risks Related to FGL's and Front Street's Businesses."

Potential Impact of a Ratings Downgrade

Under some of its International Swaps and Derivatives Association, Inc. ("ISDA") agreements, FGL has agreed to maintain certain financial strength ratings. A downgrade below these levels provides the counterparty under the agreement the right to terminate the open derivative contracts between the parties, at which time any amounts payable by FGL or the counterparty would be dependent on the market value of the underlying derivative contracts. FGL's current rating allows multiple counterparties the right to terminate the ISDA agreement, at which time the counterparty would unwind existing positions for fair market value. No ISDA agreements have been terminated, although the counterparties have reserved the right to terminate ISDA agreements at any time. As of September 30, 2016, the amount at risk for the ISDA agreement which could be terminated based upon its current ratings was \$275.2 million, which equals the fair value to FGL of the open over-the-counter call option positions. The fair value of the call options can never decrease below zero. See Part II, Item 7A. "Quantitative and Qualitative Disclosures about Market Risk-Credit Risk and Counterparty Risk-FGL."

In certain transactions, FGL and its counterparty have entered into a collateral support agreement requiring either party to post collateral when the net exposures exceed predetermined thresholds. These thresholds vary by counterparty and credit rating. As of September 30, 2016 and 2015, \$127.8 million and \$7.0 million, respectively, of collateral was posted by FGL's counterparties. 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 \$147.4 million and \$73.7 million at September 30, 2016 and 2015, respectively.

If FGL's insurance subsidiaries held net short positions against a counterparty, and such subsidiaries' financial strength ratings were below the levels required in ISDA agreement with the counterparty, the counterparty would demand immediate further collateralization which could negatively impact overall liquidity. Based on the market value of FGL's derivatives as of September 30, 2016 and 2015, FGL holds no net short positions against a counterparty; therefore, there is currently no potential exposure for FGL to post collateral.

A downgrade of the financial strength rating of one of FGL's principal insurance subsidiaries could affect its competitive position in the insurance industry and make it more difficult for FGL to market its products, as potential customers may select companies with higher financial strength ratings.

Risk Management

Risk management is a critical part of FGL's business. FGL seeks to assess risk to its business through a formalized process involving (i) identifying short-term and long-term strategic and operational objectives, (ii) development of risk appetite statements that establish what the company is willing to accept in terms of risks to achieving its goals and objectives, (iii) identifying the levers that control the risk appetite of the company, (iv) establishing the overall limits of risk acceptable for a given risk driver, (v) establishing operational risk limits that are aligned with the tolerances, (vi) assigning risk limit quantification and mitigation responsibilities to individual team members within functional groups, (vii) analyzing the potential qualitative and quantitative impact of individual risks, including but not limited to stress and scenario testing covering over 8 economic and insurance related risks, (viii) mitigating risks by appropriate actions and (ix) identifying, documenting and communicating key business risks in a timely fashion.

The responsibility for monitoring, evaluating and responding to risk is assigned first to FGL's management and employees, second to those occupying specialist functions, such as legal compliance and risk teams, and third to those occupying supervisory functions, such as internal audit and the board of directors.

Reinsurance

FGL both cedes reinsurance and assumes reinsurance from other insurance companies. FGL uses reinsurance both to diversify risks and manage loss exposures. For instance, FGL has sought reinsurance coverage in order to limit its exposure to mortality losses and enhance FGL's capital position. The portion of risks exceeding FGL's retention limit is reinsured with other insurers. The use of reinsurance permits FGL to write policies in excess of amounts FGL would typically seek to retain, and also to write a larger volume of new business.

In instances where FGL is the ceding company, FGL pays a premium to a reinsurer in exchange for the reinsurer assuming a portion of FGL's liabilities under the policies it issued. Use of reinsurance does not discharge FGL's liability as the ceding company because FGL remains directly liable to its policyholders and is required to pay the full amount of FGL's policy obligations

Table of Contents

in the event that FGL's reinsurers fail to satisfy their obligations. FGL collects reimbursement from its reinsurers when FGL pays claims on policies that are reinsured. In instances where FGL assumes reinsurance from another insurance company, FGL accepts, in exchange for a reinsurance premium, a portion of the liabilities of the other insurance company under the policies that the ceding company has issued to its policyholders.

FGL monitors the credit risk related to the ability of its reinsurers to honor their obligations under various agreements. To minimize the risk of credit loss on such contracts, FGL generally diversifies its exposures among many reinsurers and limits the amount of exposure to each based on financial strength ratings.

See Part I, Item 1A. "Risk Factors- Risks Related to FGL's and Front Street's Businesses" for further discussion of reinsurance credit risk.

Wilton Re Transaction

On January 26, 2011, FGL entered into an agreement (the "Commitment Agreement") with Wilton Re U.S. Holdings, Inc. ("Wilton"), pursuant to which Wilton agreed to cause Wilton Re, its wholly owned subsidiary, to enter into certain coinsurance arrangements with FGL Insurance following the closing of the FGH Acquisition. Pursuant to the Commitment Agreement, Wilton Re has reinsured a 100% quota share of certain of FGL Insurance's policies that are subject to redundant reserves under Regulation XXX and Guideline AXXX, as well as another block of FGL Insurance's in-force traditional, and IUL insurance policies.

Wilton Re's reinsurance of such FGL Insurance policies has not extinguished FGL Insurance's liability with respect to such business because FGL Insurance remains directly liable to policyholders and is required to pay the full amount of its policy obligations in the event that Wilton Re fails to satisfy its obligations with respect to the reinsured business.

The Front Street Reinsurance Transactions

On December 31, 2012, following regulatory approval, FGL Insurance entered into a coinsurance agreement (the "Cayman Reinsurance Agreement") with Front Street Cayman. Pursuant to the Cayman Reinsurance Agreement, Front Street Cayman reinsured a 10% quota share percentage of certain FGL Insurance annuity liabilities of approximately \$1.5 billion. Under the terms of the Cayman Reinsurance Agreement, Front Street Cayman paid an initial ceding allowance of \$15.0 million which was determined to be fair and reasonable according to an independent third-party actuarial firm. The Cayman Reinsurance Agreement is on a funds withheld basis, meaning that funds are withheld by FGL Insurance from the coinsurance premium owed to Front Street Cayman as collateral for Front Street Cayman's payment obligations. Accordingly, the collateral assets remain under the ultimate ownership of FGL Insurance. As of September 30, 2016, ceded reserves were \$1.2 billion.

Effective September 17, 2014, FGL Insurance entered into a second reinsurance treaty with Front Street Cayman whereby FGL Insurance ceded 30% of any new business of its MYGA block of business on a funds withheld basis.

This treaty was subsequently terminated as to new business effective April 30, 2015 but will remain in effect for policies ceded to Front Street Cayman with an effective date between September 17, 2014 and April 30, 2015.

Accordingly, policies issued with an effective date of May 1, 2015 and later will not be ceded to Front Street Cayman.

Reserve Facilities

Life insurance companies operating in the United States must calculate required reserves for life and annuity policies based on statutory principles. These methodologies are governed by "Regulation XXX" (applicable to term life insurance policies), "Guideline AXXX" (applicable to universal life insurance policies with secondary guarantees) and the Commissioners Annuity Reserve Valuation Method, known as "CARVM" (applicable to annuities). Under Regulation XXX, Guideline AXXX and CARVM, insurers are required to establish statutory reserves for such policies that exceed economic reserves. The industry has reduced or eliminated redundancies thereby increasing capital using a variety of techniques including reserve facilities.

Table of Contents

The CARVM Facility

On October 5, 2012, FGL Insurance entered into a yearly renewable term indemnity reinsurance agreement with Raven Reinsurance Company (“Raven Re”), a wholly owned subsidiary of FGL Insurance (the “Raven Reinsurance Agreement”), pursuant to which FGL Insurance ceded a 100% quota share of its CARVM liability for annuity benefits where surrender charges are waived. To collateralize its obligations under the Raven Reinsurance Agreement, Raven Re entered into a reimbursement agreement with Nomura Bank International plc (“NBI”), an affiliate of Nomura Securities International, Inc., and FGL (the “Reimbursement Agreement”) whereby a subsidiary of NBI issued trust notes and NBI issued a \$295.0 million letter of credit that, in each case, were deposited into a reinsurance trust as collateral for Raven Re’s obligations under the Raven Reinsurance Agreement (the “NBI Facility”). Pursuant to the NBI Facility, FGL Insurance takes full credit on its statutory financial statements for the CARVM reserve ceded to Raven Re. The letter of credit facility automatically reduces each calendar quarter by \$6.3 million. As of September 30, 2016, there was \$201.0 million available under the letter of credit facility. The NBI Facility will terminate on September 30, 2017, although the facility may terminate earlier, in accordance with the terms of the Reimbursement Agreement. Under the terms of the Reimbursement Agreement, in the event the letter of credit is drawn upon, Raven Re is required to repay the amounts utilized, and FGL is obligated to repay the amounts utilized if Raven Re fails to make the required reimbursement. FGL also is required to make capital contributions to Raven Re in the event that Raven Re’s statutory capital and surplus falls below certain defined levels. As of December 31, 2015, Raven Re’s statutory capital and surplus was \$28.3 million in excess of the minimum level required under the Reimbursement Agreement. See Part II, Item 7A. “Quantitative and Qualitative Disclosures About Market Risk-Credit Risk and Counterparty Risk-FGL.”

Regulation

Overview

FGL Insurance, FGL NY Insurance and Raven Re are subject to comprehensive regulation and supervision in their domiciles, Iowa, New York and Vermont, respectively, and in each state in which they do business. FGL Insurance does business throughout the United States, except for New York. FGL NY Insurance only does business in New York. Raven Re is a special purpose captive reinsurance company that only provides reinsurance to FGL Insurance under the Raven Reinsurance Agreement (“CARVM Treaty”). Following its re-domestication to Iowa, FGL Insurance’s principal insurance regulatory authority is the IID. State insurance departments throughout the United States also monitor FGL Insurance’s insurance operations as a licensed insurer. The NYDFS regulates the operations of FGL NY Insurance, which is domiciled and licensed in New York. The purpose of these regulations is primarily to protect policyholders and beneficiaries and not general creditors and shareholders of those insurers. Many of the laws and regulations to which FGL Insurance and FGL NY Insurance are subject are regularly re-examined and existing or future laws and regulations may become more restrictive or otherwise adversely affect their operations.

Generally, insurance products underwritten by and rates used by FGL Insurance and FGL NY Insurance must be approved by the insurance regulators in each state in which they are sold. Those products are also substantially affected by federal and state tax laws. For example, changes in tax law could reduce or eliminate the tax-deferred accumulation of earnings on the deposits paid by the holders of annuities and life insurance products, which could make such products less attractive to potential purchasers. A shift away from life insurance and annuity products could reduce FGL Insurance’s and FGL NY Insurance’s income from the sale of such products, as well as the assets upon which FGL Insurance and FGL NY Insurance earn investment income. In addition, insurance products may also be subject to the Employee Retirement Income Security Act of 1974 (“ERISA”).

State insurance authorities have broad administrative powers over FGL Insurance and FGL NY Insurance with respect to all aspects of the insurance business including:

- licensing to transact business;
- licensing agents;
- prescribing which assets and liabilities are to be considered in determining statutory surplus;
- regulating premium rates for certain insurance products;
- approving policy forms and certain related materials;

determining whether a reasonable basis exists as to the suitability of the annuity purchase recommendations producers make;

•regulating unfair trade and claims practices;

•establishing reserve requirements and solvency standards;

•regulating the amount of dividends that may be paid in any year;

regulating the availability of reinsurance or other substitute financing solutions, the terms thereof and the ability of an insurer to take credit on its financial statements for insurance ceded to reinsurers or other substitute financing solutions;

•fixing maximum interest rates on life insurance policy loans and minimum accumulation or surrender values; and

•regulating the type, amounts, and valuations of investments permitted, transactions with affiliates, and other matters.

Table of Contents

Financial Regulation

State insurance laws and regulations require FGL Insurance, FGL NY Insurance and Raven Re to file reports, including financial statements, with state insurance departments in each state in which they do business, and their operations and accounts are subject to examination by those departments at any time. FGL Insurance, FGL NY Insurance and Raven Re prepare statutory financial statements in accordance with accounting practices and procedures prescribed or permitted by these departments.

The National Association of Insurance Commissioners (“NAIC”) has approved a series of statutory accounting principles and various model regulations that have been adopted, in some cases with certain modifications, by all state insurance departments. These statutory principles are subject to ongoing change and modification. For instance, the NAIC adopted, effective with the annual reporting period ending December 31, 2010, revisions to the Annual Financial Reporting Model Regulation (or the Model Audit Rule) related to auditor independence, corporate governance and internal control over financial reporting. These revisions require that insurance companies, such as FGL Insurance and FGL NY Insurance, file reports with state insurance departments regarding their assessments of internal control over financial reporting. Moreover, compliance with any particular regulator’s interpretation of a legal or accounting issue may not result in compliance with another regulator’s interpretation of the same issue, particularly when compliance is judged in hindsight. Any particular regulator’s interpretation of a legal or accounting issue may change over time to FGL Insurance’s or FGL NY Insurance’s detriment, or changes to the overall legal or market environment, even absent any change of interpretation by a particular regulator, may cause FGL Insurance and FGL NY Insurance to change their views regarding the actions they need to take from a legal risk management perspective, which could necessitate changes to FGL Insurance’s or FGL NY Insurance’s practices that may, in some cases, limit their ability to grow and improve profitability.

State insurance departments conduct periodic examinations of the books and records, financial reporting, policy and rate filings, market conduct and business practices of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. State insurance departments also have the authority to conduct examinations of non-domiciliary insurers that are licensed in their states. The Maryland Insurance Administration (“MIA”) completed a routine financial examination of FGL Insurance for the three-year period ended December 31, 2012, and found no material deficiencies and proposed no adjustments to the financial statements as filed. The NYDFS completed a routine financial examination of FGL NY for the three-year period ended December 31, 2009, and found no material deficiencies and proposed no adjustments to the financial statements as filed. The NYDFS is in the process of completing a routine financial examination of FGL NY Insurance for the three-year periods ended December 31, 2012.

Additionally, the Vermont Department of Financial Regulation has completed a routine financial examination of Raven Re for the period from April 7, 2011 (commencement of business) through December 31, 2012. It found no material deficiencies and proposed no adjustments to the financial statements as filed.

Going forward, FGL Insurance will be subject to financial and market conduct examinations by the IID, the primary regulatory authority for Iowa domestic life insurance companies.

Dividend and Other Distribution Payment Limitations

The Iowa insurance law and the New York insurance law regulate the amount of dividends that may be paid in any year by FGL Insurance and FGL NY Insurance, respectively. Each year, FGL Insurance and FGL NY Insurance may pay a certain limited amount of ordinary dividends or other distributions without being required to obtain the prior consent of the Iowa Insurance Commissioner (“Iowa Commissioner”) or the NYDFS, respectively. However, to pay any dividends or distributions (including the payment of any dividends or distributions for which prior consent is not required), FGL Insurance and FGL NY Insurance must provide advance written notice to the Iowa Commissioner or the NYDFS, respectively.

Pursuant to Iowa insurance law, ordinary dividends are payments, together with all other such payments within the preceding twelve months, that do not exceed the greater of (i) 10% of FGL Insurance’s statutory surplus as regards policyholders as of December 31 of the preceding year; or (ii) the net gain from operations of FGL Insurance (excluding realized capital gains) for the 12-month period ending December 31 of the preceding year.

Dividends in excess of FGL Insurance's ordinary dividend capacity are referred to as extraordinary and require prior approval of the Iowa Commissioner. In deciding whether to approve a request to pay an extraordinary dividend, Iowa insurance law requires the Iowa Commissioner to consider the effect of the dividend payment on FGL Insurance's surplus and financial condition generally and whether the payment of the dividend will cause FGL Insurance to fail to meet its required risk-based capital ("RBC") ratio. Dividends may only be paid out of statutory earned surplus.

Any payment of dividends by FGL Insurance is subject to the regulatory restrictions described above and the approval of such payment by the board of directors of FGL Insurance, which must consider various factors, including general economic and business conditions, tax considerations, FGL Insurance's strategic plans, financial results and condition, FGL Insurance's expansion plans, any contractual, legal or regulatory restrictions on the payment of dividends and its effect on RBC and such other factors the board of directors of FGL Insurance considers relevant. For example, payments of dividends could reduce FGL Insurance's RBC and financial condition and lead to a reduction in FGL Insurance's financial strength rating. See Part I, Item 1A. "Risk Factors-Risks Relating to FGL's and Front Street's Businesses-A financial strength ratings downgrade, potential

Table of Contents

downgrade, or any other negative action by a rating agency, could make FGL's product offerings less attractive and increase its cost of capital, and thereby could adversely affect FGL's financial condition and results of operations." FGL NY Insurance has historically not paid dividends. Except that, in 2012, FGL NY Insurance paid a \$4.4 million dividend to FGL Insurance after a determination that, as a result of capital contributions by FGL Insurance, FGL NY Insurance was overcapitalized.

Surplus and Capital

FGL Insurance and FGL NY Insurance are subject to the supervision of the regulators in states where they are licensed to transact business. Regulators have discretionary authority in connection with the continuing licensing of these entities to limit or prohibit sales to policyholders if, in their judgment, the regulators determine that such entities have not maintained the minimum surplus or capital or that the further transaction of business will be hazardous to policyholders.

Risk-Based Capital

In order to enhance the regulation of insurers' solvency, the NAIC adopted a model law to implement RBC requirements for life, health and property and casualty insurance companies. All states have adopted the NAIC's model law or a substantially similar law. RBC is used to evaluate the adequacy of capital and surplus maintained by an insurance company in relation to risks associated with: (i) asset risk, (ii) insurance risk, (iii) interest rate risk, and (iv) business risk. In general, RBC is calculated by applying factors to various asset, premium and reserve items, taking into account the risk characteristics of the insurer. Within a given risk category, these factors are higher for those items with greater underlying risk and lower for items with lower underlying risk. The RBC formula is used as an early warning regulatory tool to identify possible inadequately capitalized insurers for purposes of initiating regulatory action, and not as a means to rank insurers generally. Insurers that have less statutory capital than the RBC calculation requires are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy. As of the most recent annual statutory financial statements filed with insurance regulators, the RBC ratios for FGL Insurance and FGL NY Insurance each exceeded the minimum RBC requirements.

Nevertheless, it may be desirable to maintain an RBC ratio in excess of the minimum requirements in order to maintain or improve FGL's financial strength ratings. FGL's historical RBC ratios are presented in the table below. See Part I, Item 1A. "Risk Factors-Risks Relating to FGL's and Front Street's Businesses-A financial strength ratings downgrade, potential downgrade, or any other negative action by a rating agency, could make FGL's product offerings less attractive and increase its cost of capital, and thereby could adversely affect FGL's financial condition and results of operations."

RBC
Ratio

As of:

December 31, 2015	401 %
December 31, 2014	388 %
December 31, 2013	423 %
December 31, 2012	406 %

Insurance Regulatory Information System Tests

The NAIC has developed a set of financial relationships or tests known as the Insurance Regulatory Information System ("IRIS") to assist state regulators in monitoring the financial condition of U.S. insurance companies and identifying companies that require special attention or action by insurance regulatory authorities. A ratio falling outside the prescribed "usual range" is not considered a failing result. Rather, unusual values are viewed as part of the regulatory early monitoring system. In many cases, it is not unusual for financially sound companies to have one or more ratios that fall outside the usual range. Insurance companies generally submit data annually to the NAIC, which in turn analyzes the data using prescribed financial data ratios, each with defined "usual ranges". Generally, regulators will begin to investigate or monitor an insurance company if its ratios fall outside the usual ranges for four or more of the ratios. IRIS consists of a statistical phase and an analytical phase whereby financial examiners review insurers' annual statements and financial ratios. The statistical phase consists of 12 key financial ratios based on year-end data

that are generated from the NAIC database annually; each ratio has a “usual range” of results. As of December 31, 2015, FGL Insurance, FGL NY Insurance and Raven Re each had two ratios outside the usual range. FGL Insurance’s and Raven Re’s IRIS ratio for change in premiums was outside the usual range. FGL Insurance and FGL NY Insurance’s IRIS ratio for change in reserving was outside the usual range. In addition, FGL NY Insurance and Raven Re’s adequacy of investment income also fell outside of the usual range.

In all instances in prior years, regulators have been satisfied upon follow-up that no regulatory action was required. FGL Insurance, FGL NY Insurance and Raven Re are not currently subject to regulatory restrictions based on these ratios.

Insurance Reserves

State insurance laws require insurers to analyze the adequacy of reserves. The respective appointed actuaries for FGL Insurance, FGL NY Insurance and Raven Re must each submit an opinion on an annual basis that their respective reserves, when considered

Table of Contents

in light of the respective assets FGL Insurance, FGL NY Insurance and Raven Re hold with respect to those reserves, make adequate provision for the contractual obligations and related expenses of FGL Insurance, FGL NY Insurance and Raven Re. FGL Insurance, FGL NY Insurance and Raven Re have filed all of the required opinions with the insurance departments in the states in which they do business.

Credit for Reinsurance Regulation

States regulate the extent to which insurers are permitted to take credit on their financial statements for the financial obligations that the insurers cede to reinsurers. Where an insurer cedes obligations to a reinsurer which is neither licensed nor accredited by the state insurance department, the ceding insurer is not permitted to take such financial statement credit unless the unlicensed or unaccredited reinsurer secures the liabilities it will owe under the reinsurance contract. Under the laws regulating credit for reinsurance issued by such unlicensed or unaccredited reinsurers, the permissible means of securing such liabilities are (i) the establishment of a trust account by the reinsurer to hold certain qualifying assets in a qualified U.S. financial institution, such as a member of the Federal Reserve, with the ceding insurer as the exclusive beneficiary of such trust account with the unconditional right to demand, without notice to the reinsurer, that the trustee pay over to it the assets in the trust account equal to the liabilities owed by the reinsurer; (ii) the posting of an unconditional and irrevocable letter of credit by a qualified U.S. financial institution in favor of the ceding company allowing the ceding company to draw upon the letter of credit up to the amount of the unpaid liabilities of the reinsurer and (iii) a “funds withheld” arrangement by which the ceding company withholds transfer to the reinsurer of the reserves which support the liabilities to be owed by the reinsurer, with the ceding insurer retaining title to and exclusive control over such reserves. In addition, on January 1, 2014, the NAIC Model Credit for Reinsurance Act became effective in Iowa, which adds the concept of “certified reinsurer”, whereby a ceding insurer may take financial statement credit for reinsurance provided by an unaccredited and unlicensed reinsurer which has been certified by the Iowa Commissioner. The Iowa Commissioner certifies reinsurers based on several factors, including their financial strength ratings, and imposes collateral requirements based on such factors. FGL Insurance and FGL NY Insurance are subject to such credit for reinsurance rules in Iowa and New York, respectively, insofar as they enter into any reinsurance contracts with reinsurers which are neither licensed nor accredited in Iowa and New York, respectively.

Insurance Holding Company Regulation

As the parent company of FGL Insurance and the indirect parent company of FGL NY Insurance, FGL and entities affiliated for purposes of insurance regulation are subject to the insurance holding company laws in Iowa and New York. These laws generally require each insurance company directly or indirectly owned by the holding company to register with the insurance department in the insurance company’s state of domicile and to furnish annually financial and other information about the operations of companies within the holding company system. Generally, all transactions between insurers and affiliates within the holding company system are subject to regulation and must be fair and reasonable, and may require prior notice and approval or non-disapproval by its domiciliary insurance regulator.

Most states, including Iowa and New York, have insurance laws that require regulatory approval of a direct or indirect change of control of an insurer or an insurer’s holding company. Such laws prevent any person from acquiring control, directly or indirectly, of HRG, FGL, FGH, FGL Insurance or FGL NY Insurance unless that person has filed a statement with specified information with the insurance regulators and has obtained their prior approval. In addition, investors deemed to have a direct or indirect controlling interest are required to make regulatory filings and respond to regulatory inquiries. Under most states’ statutes, including those of Iowa and New York, acquiring 10% or more of the voting stock of an insurance company or its parent company is presumptively considered a change of control, although such presumption may be rebutted. Accordingly, any person who acquires 10% or more of HRG’s voting securities or that of HRG, FGL, FGH, FGL Insurance or FGL NY Insurance without the prior approval of the insurance regulators of Iowa and New York will be in violation of those states’ laws and may be subject to injunctive action requiring the disposition or seizure of those securities by the relevant insurance regulator or prohibiting the voting of those securities and to other actions determined by the relevant insurance regulator.

Insurance Guaranty Association Assessments

Each state has insurance guaranty association laws under which insurers doing business in the state may be assessed by state insurance guaranty associations for certain obligations of insolvent insurance companies to policyholders and claimants. Typically, states assess each member insurer in an amount related to the member insurer's proportionate share of the business written by all member insurers in the state. Although no prediction can be made as to the amount and timing of any future assessments under these laws, FGL Insurance and FGL NY Insurance have established reserves that they believe are adequate for assessments relating to insurance companies that are currently subject to insolvency proceedings.

Market Conduct Regulation

State insurance laws and regulations include numerous provisions governing the marketplace activities of insurers, including provisions governing the form and content of disclosure to consumers, illustrations, advertising, sales and complaint process practices. State regulatory authorities generally enforce these provisions through periodic market conduct examinations. In addition, FGL Insurance and FGL NY Insurance must file, and in many jurisdictions and for some lines of business obtain regulatory approval for, rates and forms relating to the insurance written in the jurisdictions in which they operate. FGL Insurance

Table of Contents

is currently the subject of seven ongoing market conduct examinations in various states. Market conduct examinations can result in monetary fines or remediation and generally require FGL Insurance to devote significant resources to the management of such examinations. FGL Insurance does not believe that any of the current market conduct examinations it is subject to will result in any fines or remediation orders that will be material to its business.

Regulation of Investments

FGL Insurance and FGL NY Insurance are subject to state laws and regulations that require diversification of their investment portfolios and limit the amount of investments in certain asset categories, such as below investment grade fixed income securities, equity, real estate, other equity investments and derivatives. Failure to comply with these laws and regulations would cause investments exceeding regulatory limitations to be treated as either non-admitted assets for purposes of measuring surplus or as not qualified as an asset held for reserve purposes and, in some instances, would require divestiture or replacement of such non-qualifying investments. FGL believes that the investment portfolios of FGL Insurance and FGL NY Insurance as of September 30, 2016 complied in all material respects with such regulations.

Privacy Regulation

FGL's operations are subject to certain federal and state laws and regulations that require financial institutions and other businesses to protect the security and confidentiality of personal information, including health-related and customer information, and to notify customers and other individuals about their policies and practices relating to their collection and disclosure of health-related and customer information and their practices relating to protecting the security and confidentiality of such information. These laws and regulations require notice to affected individuals, law enforcement agencies, regulators and others if there is a breach of the security of certain personal information, including social security numbers, and require holders of certain personal information to protect the security of the data. FGL's operations are also subject to certain federal regulations that require financial institutions and creditors to implement effective programs to detect, prevent, and mitigate identity theft. In addition, FGL's ability to make telemarketing calls and to send unsolicited e-mail or fax messages to consumers and customers and its uses of certain personal information, including consumer report information, are regulated. Federal and state governments and regulatory bodies may be expected to consider additional or more detailed regulation regarding these subjects and the privacy and security of personal information.

FIA's

In recent years, the SEC and state securities regulators have questioned whether FIA's, such as those sold by FGL, should be treated as securities under the federal and state securities laws rather than as insurance products exempted from such laws. Treatment of these products as securities would require additional registration and licensing of these products and the agents selling them, as well as cause FGL to seek additional marketing relationships for these products, any of which may impose significant restrictions on its ability to conduct operations as currently operated. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), annuities that meet specific requirements, including requirements relating to certain state suitability rules, are specifically exempted from being treated as securities by the SEC. FGL expects that the types of FIA's FGL Insurance and FGL NY Insurance sell will meet these requirements and therefore are exempt from being treated as securities by the SEC and state securities regulators. However, there can be no assurance that federal or state securities laws or state insurance laws and regulations will not be amended or interpreted to impose further requirements on FIA's.

The Dodd-Frank Act

The Dodd-Frank Act makes sweeping changes to the regulation of financial services entities, products and markets. Certain provisions of the Dodd-Frank Act are or may become applicable to FGL, its competitors or those entities with which FGL does business, including, but not limited to:

- the establishment of federal regulatory authority over derivatives;
- the establishment of consolidated federal regulation and resolution authority over systemically important financial services firms;
- the establishment of the Federal Insurance Office;
- changes to the regulation of broker dealers and investment advisors;
- changes to the regulation of reinsurance;

- changes to regulations affecting the rights of shareholders;
- the imposition of additional regulation over credit rating agencies;
- the imposition of concentration limits on financial institutions that restrict the amount of credit that may be extended to a single person or entity; and
- the clearing of derivative contracts.

Numerous provisions of the Dodd-Frank Act require the adoption of implementing rules or regulations. In addition, the Dodd-Frank Act mandates multiple studies, which could result in additional legislation or regulation applicable to the insurance industry, FGL, its competitors or those entities with which FGL does business. Legislative or regulatory requirements imposed by or promulgated in connection with the Dodd-Frank Act may impact FGL in many ways, including, but not limited to:

Table of Contents

- placing FGL at a competitive disadvantage relative to FGL's competition or other financial services entities;
- changing the competitive landscape of the financial services sector or the insurance industry;
- making it more expensive for FGL to conduct its business;
- requiring the reallocation of significant company resources to government affairs;
- increasing FGL's legal and compliance related activities and the costs associated therewith; or
- otherwise having a material adverse effect on the overall business climate as well as FGL's financial condition and results of operations.

Until various studies are completed and final regulations are promulgated pursuant to the Dodd-Frank Act, the full impact of the Dodd-Frank Act on investments, investment activities and insurance and annuity products of FGL Insurance and FGL NY Insurance remains unclear.

ERISA

FGL may offer certain insurance and annuity products to employee benefit plans governed by ERISA and/or the U.S. Internal Revenue Code of 1986, as amended (the "Code"), including group annuity contracts designated to fund tax-qualified retirement plans. ERISA and the Code provide (among other requirements) standards of conduct for employee benefit plan fiduciaries, including investment managers and investment advisers with respect to the assets of such plans, and holds fiduciaries liable if they fail to satisfy fiduciary standards of conduct.

In April 2016, the Department of Labor ("DOL") released its final "fiduciary" rule which could have a material impact on FGL, its products, distribution, and business model. The final rule treats persons who provide investment advice for a fee or other compensation with respect to assets of an employer plan or individual retirement account ("IRA") as fiduciaries of that plan or IRA. Significantly, the rule expands the definition of fiduciary to apply to persons, including insurance agents, who advise and sell products to IRA owners. As a practical matter, this means commissioned insurance agents selling FGL's IRA products must qualify for a prohibited transaction exemption which requires the agent and financial institution to meet various conditions including that an annuity sale be in the "best interest" of the client without regard for the agent's, financial institution's or other party's financial or other interests, and that any compensation paid to the agent and financial institution be reasonable. The final rule is effective June 2016 and generally applicable in April 2017. The rule has generated considerable controversy and is the subject of industry efforts to block implementation both in Congress and through court actions. The success or failure of these efforts cannot be predicted. Assuming the rule is not blocked, the precise impact of the rule on the financial services industry more generally, and the impact on FGL and its business in particular, is difficult to assess because the rule is new and still being studied. While FGL continues to analyze the regulation, FGL believes it could have an adverse effect on sales of annuity products to IRA owners particularly in the independent agent distribution channel. A significant portion of FGL's annuity sales are to IRAs. Compliance with the prohibited transaction exemptions would likely require additional supervision of agents, cause changes to compensation practices and product offerings, and increase litigation risk, all of which could adversely impact FGL's business, results of operations and/or financial condition.

Employees

As of September 30, 2016, FGL had approximately 267 employees. FGL believes that it has a good relationship with its employees. In addition, FGL's voluntary attrition has been below 8% for the past four years, which is also an indicator of an engaged and motivated workforce.

FGL Available Information

For information regarding FGL see the remaining section of this report. For additional information regarding FGL, including information in addition to that included in HRG's SEC reports and public announcements, we direct you to FGL's announcements and filings made with the SEC, including FGL's Annual Report on Form 10-K for Fiscal 2016. You should follow and read the SEC filings, press releases and other public statements made by FGL and its representatives, as we expect that they will make additional information available through these channels. FGL's Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Exchange Act are made available free of charge on or through FGL's website at home.fglife.com, as soon as reasonably practicable after such reports are filed with, or furnished to, the SEC.

The information on FGL's website is not, and shall not be deemed to be, part of this report or incorporated into any other filings HRG or FGL makes with the SEC and FGL's reports are not and shall not be deemed to be part of this report. You may read and copy any materials FGL files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains FGL's reports and other information at www.sec.gov.

Front Street

Front Street, a Delaware corporation and a subsidiary of HRG, holds all of the equity of Front Street Re Ltd., a Bermuda company ("Front Street Bermuda") and Front Street Cayman, an exempted company incorporated under the laws of the Cayman Islands

Table of Contents

and subsidiary of HRG. Front Street Bermuda was formed in March 2010 to act as a long-term reinsurer. Front Street Cayman was formed in the Cayman Islands and on October 24, 2012, received from the Cayman Islands Monetary Authority a license to carry on business as an Unrestricted Class “B” Insurer that permits Front Street Cayman to conduct offshore direct and reinsurance business. Front Street Bermuda and Front Street Cayman are parties to reinsurance transactions.

On December 31, 2012, following regulatory approval, Front Street Cayman entered into a coinsurance agreement (the “Cayman Reinsurance Agreement”) with FGL. Pursuant to the Cayman Reinsurance Agreement, Front Street Cayman reinsured a 10% quota share percentage of certain FGL annuity liabilities.

Effective September 17, 2014, FGL entered into a second reinsurance treaty (the “MYGA Treaty”, and together with the Cayman Reinsurance Agreement, the “Reinsurance Agreements with FGL”) with Front Street Cayman whereby FGL ceded 30% of any new business of its multi-year guaranteed deferred annuity (“MYGA”) block of business on a funds withheld basis. This treaty was subsequently terminated as to new business effective April 30, 2015, but remains in effect for policies ceded to Front Street Cayman with an effective date between September 17, 2014 and April 30, 2015. At September 30, 2016 and 2015, Front Street had \$978.8 million and \$1,058.0 million, respectively, of funds withheld receivables and \$1,119.5 million and \$1,226.8 million, respectively, of insurance reserves related to the Reinsurance Agreements with FGL.

On December 16, 2013, Front Street Cayman closed a reinsurance treaty with Bankers Life Insurance Company. Under the terms of the treaty, Bankers Life Insurance Company ceded annuity business to Front Street Cayman, on a funds withheld basis. At September 30, 2016 and 2015, Front Street had \$125.8 million and \$148.3 million, respectively, of funds withheld receivables and \$119.0 million and \$145.7 million, respectively, of insurance reserves related to this transaction.

On October 31, 2014, Front Street Cayman purchased Ability Re from Ability Re Holdings. The Ability Re acquisition consisted of long-term care reinsurance business. The acquired reinsurance agreements complement Front Street Cayman’s existing in force long-duration insurance liabilities. At September 30, 2016 and 2015, Front Street had \$295.6 million and \$357.5 million, respectively, of funds withheld receivables and \$271.5 million and \$348.4 million, respectively, of insurance reserves related to this transaction.

During Fiscal 2015, Front Street Cayman also closed three additional reinsurance transactions with unaffiliated parties. At September 30, 2016 and 2015, Front Street had \$250.2 million and \$146.3 million, respectively, of funds withheld receivables and \$241.3 million and \$135.1 million, respectively, of insurance reserves related to these transactions.

Strategy

Front Street was formed with the intention of building a flexible and diversified portfolio of life and annuity reinsurance treaties. Front Street may also conduct hedging and other investment activities. Front Street may, from time to time, selectively pursue other opportunities, including acquisition, and/or disposition opportunities. For Fiscal 2017, Front Street’s business strategy and activities may be impacted by the strategic review process underway at HRG.

Competition

The reinsurance industry is highly competitive. Front Street competes with major reinsurers, most of which are well established and have significant operating histories, strong financial strength ratings and long-standing client relationships. Front Street’s competitors include Athene Life Re Ltd., Global Atlantic Financial Group Limited, Guggenheim Life and Annuity Company, Reinsurance Group of America, Incorporated, Legal & General Reinsurance Company Ltd., and Resolution Life Holdings, Inc., as well as smaller companies and other niche reinsurers. See Part I, Item 1A. “Risk Factors-Risks Related to FGL’s and Front Street’s Businesses- FGL and Front Street operate in highly competitive industries, which could limit their abilities to gain or maintain their respective positions in the industries and could materially adversely affect their business, financial condition and results of operations.”

Employees

As of September 30, 2016, Front Street had four employees. As of September 30, 2016, none of Front Street’s employees were represented by labor unions or covered by collective bargaining agreements. Front Street believes that its overall relationship with its employees is good.

Salus

Salus, a Delaware limited liability company, was established to be a direct originator of secured asset-based loans to the middle market across a variety of industries. In Fiscal 2013 and February 2015, Salus completed a collateralized loan obligation (“CLO”) securitization. As of September 30, 2016, Salus and its co-lender Front Street had asset-based loans with a balance of \$35.0 million, net of \$11.0 million of allowance for credit losses, excluding the effect of loan participations by FGL.

Strategy

During Fiscal 2016, Salus determined to focus its efforts primarily on collecting on its existing loans and winding down its operations. For Fiscal 2017, Salus expects to continue to execute on its strategy of collecting on its existing loans and winding down its operations; however, it may also pursue other opportunities that it may consider strategically advantageous or

Table of Contents

complementary to such efforts. Salus' ability to orderly and efficiently wind-down its business is subject to a number of risks and uncertainties, some which are beyond the control of Salus. See Part I, Item 1A. "Risk Factors-Risks Related to Salus' Business" for additional information regarding these risks.

Employees

As of September 30, 2016, Salus had 7 employees. As of September 30, 2016, none of Salus' employees were represented by labor unions or covered by collective bargaining agreements. Salus believes that its overall relationship with its employees is good.

Item 1A. Risk Factors

The following risk factors and the forward-looking statements elsewhere herein should be read carefully in connection with evaluating the business of the Company and its subsidiaries. These risks and uncertainties could cause actual results and events to differ materially from those anticipated. Many of the risk factors described under one heading below may apply to more than one section in which we have grouped them for the purpose of this presentation. As a result, you should consider all of the following factors, together with all of the other information presented herein, in evaluating the business of the Company and its subsidiaries. These risk factors may be amended, supplemented or superseded from time to time in filings and reports that we file with the SEC in the future.

Risks Related to HRG

We are a holding company and our only material assets are our equity interests in our operating subsidiaries and our other investments; as a result, our principal source of revenue and cash flow is distributions from our subsidiaries; our subsidiaries may be limited by law and by contract in making distributions to us.

As a holding company, our only material assets are our cash on hand, the equity interests in our subsidiaries and other investments. As of September 30, 2016, excluding cash, cash equivalents and investments held by our subsidiaries, we had approximately \$172.0 million in cash, cash equivalents and investments. Our principal source of revenue and cash flow is distributions from our subsidiaries. Thus, our ability to service our debt, finance our business and pursue our business objectives is dependent on the ability of our subsidiaries to generate sufficient net income and cash flows to make upstream cash distributions to us. For example, while we expect annual interest payments on our debt to be approximately \$137.1 million in Fiscal 2017, we currently expect to receive approximately \$55.1 million of dividends from our subsidiaries' distributable earnings in Fiscal 2017. We expect such dividends along with our cash on hand, cash equivalents and investments to exceed our expected cash requirements and to satisfy our interest obligations, and general administrative expenses for at least the next twelve months. Depending on a variety of factors, including the general state of the capital markets, operating needs or business strategies, HRG and its subsidiaries may or may be required to raise additional capital through the issuance of equity, debt, or both. There is no assurance, however, that such capital will be available at that time, in the amounts necessary or on terms satisfactory to HRG.

Our subsidiaries are and will continue to be separate legal entities, and although they may be wholly-owned or controlled by us, they have no obligation to make any funds available to us, whether in the form of loans, dividends, distributions or otherwise. The boards of directors of our subsidiaries may consider a range of factors and consider their stockholders' constituencies (including public stockholders) as a whole when making decisions about dividends or other payments. The ability of our subsidiaries to distribute cash to us will also be subject to, among other things, restrictions that are contained in our subsidiaries' financing agreements, availability of sufficient funds in such subsidiaries and applicable state laws and regulatory restrictions. Claims of creditors of our subsidiaries generally will have priority as to the assets of such subsidiaries over our claims and claims of our creditors and stockholders. To the extent the ability of our subsidiaries to distribute dividends or other payments to us could be limited in any way, our liquidity and ability to pursue our business objectives or to take other action that could be beneficial to our businesses, or otherwise fund and conduct our business, could be materially limited.

As an example, our subsidiary Spectrum Brands is a holding company with limited business operations of its own and its main assets are the capital stock of its subsidiaries, principally SBI. The terms of Spectrum Brands' indebtedness may limit its ability to pay dividends to Spectrum Brands and to us. See Part I, Item 1A. "Risk Factors-Risks Related to Spectrum Brands' Business-SBI's substantial indebtedness may limit its financial and operating flexibility, and

Spectrum Brands may incur additional debt, which could increase the risks associated with its substantial indebtedness” and Part I, Item IA. “Risk Factors-Risks Related to Spectrum Brands’ Business- Restrictive covenants in the SBI Senior Secured Facilities and the SBI Indentures may restrict SBI’s ability to pursue its business strategies.”

Our subsidiary, FGL, is also a holding company with limited business operations of its own. Its main assets are the capital stock of its subsidiaries, which are principally regulated insurance companies, whose ability to pay dividends is limited by applicable insurance laws. Accordingly, FGL’s payment of dividends is dependent, to a significant extent, on the generation of cash flow by its subsidiaries and their ability to make such cash available to FGL, whether by dividend or otherwise. FGL’s subsidiaries may not be able to, or may not be permitted to, make distributions to enable FGL to meet its obligations and pay dividends.

Table of Contents

Each subsidiary is a distinct legal entity and legal and contractual restrictions may also limit FGL's ability to obtain cash from its subsidiaries. See Part I, Item 1. "Business-Our Operating Subsidiaries-FGL-Regulation-Financial Regulation-Dividend and Other Distribution Payment Limitations" in this report. See Part I, Item 1A. "Risk Factors-Risks Related to FGL's and Front Street's Businesses-The agreements and instruments governing FGL's debt contain significant operating and financial restrictions, which may prevent FGL from capitalizing on business opportunities." As discussed elsewhere herein, while the agreements governing the FGL Merger permit FGL to pay a regular quarterly cash dividend on its Common Stock in an amount not in excess of \$0.065 per share, per quarter, FGL may not pay any other dividends without the consent of Anbang. In addition, if the FGL Merger is consummated, while we will receive the proceeds from the sale of our shares of FGL common stock, we will no longer receive dividends from FGL.

In addition, our liquidity and ability to pursue business opportunities may be impacted by the capital needs of our subsidiaries. Such entities may require additional capital to maintain or grow their businesses, make payments on their indebtedness or other commitments, and/or make upstream cash distributions. For example, during Fiscal 2016, we provided various forms of credit support and capital contributions to Compass, which we sold in Fiscal 2016, and Salus.

Furthermore, these restrictions on our subsidiaries ability to pay dividends or distributions may limit our ability to incur additional indebtedness or refinance our existing indebtedness in the future as well. Our ability to refinance our indebtedness will depend on our ability to generate future cash flow, and we are dependent on our subsidiaries' ability to pay dividends or pay distributions to us in order for us to generate cash flow.

We are exploring strategic alternatives, but there can be no assurance that we will be successful in identifying or completing any strategic alternative or that any such strategic alternative will yield additional value for stockholders. We have commenced a review of strategic alternatives which could result in, among other things, a merger, a sale or other business combination involving the Company or its assets. There can be no assurance that the exploration of strategic alternatives will result in the identification or consummation of any transaction. In addition, we may incur substantial expenses associated with identifying and evaluating potential strategic alternatives. The process of exploring strategic alternatives may be time consuming and disruptive to the business operations and the management teams of HRG and/or its subsidiaries. If we are unable to effectively manage the process, the business, financial condition and results of operations of HRG and/or its subsidiaries could be adversely affected. We also cannot assure that any potential transaction or other strategic alternative, if identified, evaluated and consummated, will provide greater value to our stockholders than that reflected in the current stock price. Any potential transaction would be dependent upon a number of factors that may be beyond our control.

We and our subsidiaries may determine not to or may not be successful in identifying and consummating a strategic alternative and/or suitable acquisition, sale, merger or other business opportunity, as applicable.

We and/or one or more of our subsidiaries may not be successful in identifying and consummating a strategic alternative and/or suitable acquisition, sale, merger or other business opportunity, as applicable, at favorable valuations and other terms. Furthermore, any attractive strategic alternatives, acquisition, sale, merger or other business opportunities may be limited or prohibited by applicable regulatory regimes. Any future strategic alternative acquisition, sale, merger or business opportunity may also require a substantial amount of our or our subsidiaries' management's time and may be difficult to successfully execute. Any such failure could have a material adverse effect on our or our subsidiaries' results of operations and financial condition and our or our subsidiaries' ability to service our respective debt.

Even if we or our subsidiaries do execute a strategic alternative, acquisition, sale, merger or other business opportunity, as applicable, there is no assurance that we or our subsidiaries will be successful in enhancing our or our subsidiaries' business or financial condition or that such transaction will be successful.

We and our subsidiaries are dependent on certain key personnel.

We and our subsidiaries are dependent upon certain key personnel who have substantial experience and expertise in our industry and the industries of our subsidiaries and have made significant contributions to our growth and success. We are particularly dependent on the skills, experience and efforts of Omar M. Asali, our President and Chief Executive Officer. Mr. Asali has informed us that he plans to leave the Company in Fiscal 2017. See "Item 9B. Other

Information” included elsewhere in this report for additional information regarding Mr. Asali’s future departure from the Company. If we are unable to find a suitable replacement for Mr. Asali or if we experience the loss of the services of any of our or our subsidiaries’ key executive officers or other members of senior management, or one or more of our or our subsidiaries’ other key personnel, or the concurrent loss of several of these individuals or any negative public perception with respect to these individuals, could also have a material adverse effect on our business, results of operations and financial condition.

We and our subsidiaries may not be able to attract and retain skilled people.

Our success and our subsidiaries’ success depend, in large part, on our and their ability to attract new personnel, retain and motivate our and their existing employees, and continue to compensate such personnel competitively.

Competition for the best personnel in most activities in which we and our subsidiaries engage can be intense, and we may not be able to hire these people or retain them. We recently commenced a process to review strategic alternatives for HRG and/or its assets. Such process may negatively impact our and/or our subsidiaries’ ability to retain or hire key personnel. Our and/or our subsidiaries’ business,

Table of Contents

financial condition and results of operations could be materially adversely affected if we or they lose any of these persons and are unable to attract and retain qualified replacements.

Our subsidiaries operate in highly-competitive industries, limiting their ability to gain or maintain their positions in their respective industries.

Many of our subsidiaries' competitors possess greater technical, human, financial and other resources, or more local industry knowledge, or greater access to capital, than our subsidiaries do. These factors may place our subsidiaries at a competitive disadvantage in successfully completing future acquisitions and investments.

Our subsidiaries also face competition from both traditional and new market entrants. See risk factors related to Spectrum and FGL herein.

We and our subsidiaries could consume resources in pursuing strategic alternatives, acquisitions, business opportunities, dispositions, financings or capital market transactions, as applicable, that are not consummated, which could materially adversely affect our business.

We and our subsidiaries anticipate that the investigation of strategic alternatives, acquisition, disposition, financing or capital market transactions, and the negotiation, drafting, and execution of relevant agreements, disclosure documents, and other instruments, with respect to such transactions, will require substantial management time and attention and substantial costs for financial advisors, accountants, attorneys and other advisors. If a decision is made not to consummate a specific transaction, the costs incurred up to that point for the proposed transaction likely would not be recoverable. Furthermore, even if an agreement is reached relating to a specific transaction, we may fail to consummate the transaction for any number of reasons, including those beyond our control. Any such event could consume significant management time and result in a loss to us of the related costs incurred, which could adversely affect our financial position and our business.

Covenants in certain of our material instruments limit, and other future instruments may limit our ability to operate our business.

The indenture governing our 7.875% Notes (the "7.875% Notes Indenture"), and the indenture governing our 7.750% Notes (the "7.750% Notes Indenture" and, collectively with the 7.875% Notes Indenture, the "Indentures") contain, and any of our other future financing agreements may contain, covenants imposing operating and financial restrictions on our business. The Indentures require us to satisfy certain financial tests, including minimum liquidity and collateral coverage ratios. If we fail to meet or satisfy any of these covenants (after applicable cure periods), we would be in default and noteholders (through the trustee or collateral agent, as applicable) could elect to declare all amounts outstanding to be immediately due and payable, enforce their interests in the collateral pledged and restrict our ability to make additional borrowings. These agreements may also contain cross-default provisions, so that if a default occurs under any one agreement, the lenders under the other agreements could also declare a default. The covenants and restrictions in the Indentures, subject to specified exceptions, restrict our, and in certain cases, our subsidiaries' ability to, among other things:

- incur additional indebtedness;
- create liens or engage in sale and leaseback transactions;
- pay dividends or make distributions in respect of capital stock;
- make certain restricted payments;
- sell assets;
- engage in transactions with affiliates, except on an arms-length basis; or
- consolidate or merge with, or sell substantially all of our assets to, another person.

The Certificate of Designation provides CF Turul LLC ("CF Turul"), an affiliate of funds managed by Fortress Investment Group LLC ("Fortress"), with consent and voting rights with respect to certain of the matters referred to above and certain corporate governance rights.

These restrictions may interfere with our ability to obtain financings or to engage in other business activities, which could have a material adverse effect on our business, financial condition, liquidity and results of operations.

Moreover, a default under one of our subsidiaries' financing agreements may cause a default on our debt and our other financing arrangements.

Finally, Spectrum Brands' and FGL's stock are, directly or indirectly, pledged as collateral under our 7.875% Notes, and foreclosure on a sufficient number of Spectrum Brands stock or FGL stock pledged as collateral would constitute a change of control under certain of SBI's debt documents or FGL's debt documents, as applicable. Upon a change of control under those debt documents, SBI or FGL, as applicable, is required to offer to repurchase their notes at a price equal to 101% of the principal amount of their notes, plus accrued interest. In the event holders of the SBI Notes (as defined below) or FGH Notes exercise remedies in connection with a default, their claims to SBI's or FGH's assets, respectively, would have priority over the holders of our 7.875% Notes.

Table of Contents

Financing covenants could adversely affect our financial health and prevent us from fulfilling our obligations. We have a significant amount of indebtedness. As of September 30, 2016, our total outstanding indebtedness was \$1.8 billion. As of September 30, 2016, the total liabilities of Spectrum Brands were approximately \$5.2 billion, including trade payables. As of September 30, 2016, the total liabilities of FGL were approximately \$25.1 billion, including approximately \$19.3 billion in annuity contractholder funds, approximately \$3.5 billion in future policy benefits, approximately \$300.0 million of indebtedness under the FGL Notes and \$100.0 million on an unsecured revolving credit facility. As of September 30, 2016, the total liabilities of Salus were approximately \$124.1 million. As of September 30, 2016, the total liabilities of HGI Energy were \$92.0 million. Our and our subsidiaries' significant indebtedness and other financing arrangements could have material consequences. For example, they could:

- make it difficult for us to satisfy our obligations with respect to our outstanding and other future debt obligations;
- increase our vulnerability to general adverse economic and industry conditions or a downturn in our business;
- impair our ability to obtain additional financing in the future for working capital, investments, acquisitions and other general corporate purposes;
- require us to dedicate a substantial portion of our cash flows to the payment to our financing sources, thereby reducing the availability of our cash flows to fund working capital, investments, acquisitions and other general corporate purposes; and
- place us at a disadvantage compared to our competitors.

Any of these risks could impact our ability to fund our operations or limit our ability to expand our business, which could have a material adverse effect on our business, financial condition, liquidity and results of operations. Our ability to make payments on our financial obligations may depend upon the future performance of our operating subsidiaries and their ability to generate cash flow in the future, which are subject to general economic, industry, financial, competitive, legislative, regulatory, and other factors that are beyond our control. We cannot assure you that we will generate sufficient cash flow from our operating subsidiaries, or that future borrowings will be available to us, in an amount sufficient to enable us to pay our financial obligations or to fund our other liquidity needs. If the cash flow from our operating subsidiaries is insufficient, we may take actions, such as delaying or reducing investments or acquisitions, attempting to restructure or refinance our financial obligations prior to maturity, selling assets or operations or seeking additional equity capital to supplement cash flow. However, we may be unable to take any of these actions on commercially reasonable terms, or at all.

Future financing activities may adversely affect our leverage and financial condition.

Subject to the limitations set forth in the Indentures, we and our subsidiaries may incur additional indebtedness and issue dividend-bearing redeemable equity interests. We may incur substantial additional financial obligations to enable us to execute on our business objectives. These obligations could result in:

- default and foreclosure on our assets if our operating revenues after an investment or acquisition are insufficient to repay our financial obligations;
- acceleration of our obligations to repay the financial obligations even if we make all required payments when due if we breach certain covenants that require the maintenance of certain financial ratios or reserves without a waiver or renegotiation of that covenant;
- our immediate payment of all amounts owed, if any, if such financial obligations are payable on demand;
- our inability to obtain necessary additional financing if such financial obligations contain covenants restricting our ability to obtain such financing while the financial obligations remain outstanding;
- our inability to pay dividends on our capital stock;
- using a substantial portion of our cash flow to pay principal and interest or dividends on our financial obligations, which will reduce the funds available for dividends on our Common Stock if declared, expenses, capital expenditures, acquisitions and other general corporate purposes;
- limitations on our flexibility in planning for and reacting to changes in our business and in the industries in which we operate;
- an event of default that triggers a cross default with respect to other financial obligations, including our notes;
- increased vulnerability to adverse changes in general economic, industry, financial, competitive legislative, regulatory and other conditions and adverse changes in government regulation; and

limitations on our ability to borrow additional amounts for expenses, capital expenditures, acquisitions, debt service requirements, execution of our strategy and other purposes and other disadvantages compared to our competitors.

Table of Contents

We and our subsidiaries rely extensively on our information technology (“IT”) systems, networks and services, including Internet sites, data hosting and processing facilities and tools and other hardware, software and technical applications and platforms, some of which are managed, hosted, provided and/or used by third-parties or vendors, to assist in conducting our and our subsidiaries’ businesses.

Our and our subsidiaries IT systems have been, and will likely continue to be, subject to computer viruses or other malicious codes, unauthorized access attempts, phishing and other cyber-attacks. We and our subsidiaries continue to assess potential threats and make investments seeking to address these threats, including monitoring of networks and systems and upgrading skills, employee training and security policies for us and our subsidiaries, and our respective third-party providers. However, because the techniques used in these attacks change frequently and may be difficult to detect for periods of time, we or our subsidiaries may face difficulties in anticipating and implementing adequate preventative measures. To date, we and our subsidiaries have not experienced a material impact on our businesses or operations from these attacks; however, there can be no guarantee that our security efforts will prevent breaches or breakdowns to ours, our subsidiaries’ or our third-party providers’ databases or systems. If the IT systems, networks or service providers we and our subsidiaries rely upon fails to function properly, or if we, our subsidiaries or one of our third-party providers suffer a loss, significant unavailability of or disclosure of our business or stakeholder information, and our and our subsidiaries’ businesses continuity plans do not effectively address these failures on a timely basis, we and/or our subsidiaries may be exposed to reputational, competitive and business harm as well as litigation and regulatory action. The costs and operational consequences of responding to breaches and implementing remediation measures could be significant.

We have made significant investments in publicly traded companies. Changes in the market prices of the securities we own, particularly during times of volatility in security prices, can have a material impact on the value of our business.

We have made significant investments in publicly traded companies. Changes in the market prices of the publicly traded securities of these entities could have a material impact on an investor’s perception of the aggregate value of our Common Stock and on the value of the assets we can pledge to creditors for debt financing, which in turn could adversely affect our ability to incur additional debt or finance future acquisitions.

Certain of our stockholders hold a significant portion of our outstanding voting stock; decisions by such stockholders, including the decision to sell their HRG securities, could adversely affect our financial results and liquidity.

Leucadia National Corporation (“Leucadia”) and CF Turul beneficially own a significant portion of our outstanding Common Stock and have appointed representatives to our Board. Because of this, such persons may exercise significant influence over our business and affairs, including over matters submitted to a vote of our stockholders, such as the election of directors, the removal of directors, and approval of significant corporate transactions. This influence and actual control may have the effect of discouraging offers to acquire HRG because any such transaction would likely require the consent of Leucadia and CF Turul. See also Part I, Item 1A. “Risk Factors- Provisions in our organizational documents and applicable regulations may discourage the takeover of our company, may make removal of our management more difficult and may depress our stock price.”

Matters not directly related to us can nevertheless affect Leucadia’s and CF Turul’s respective decisions to maintain, decrease or increase their investments in us. Leucadia and CF Turul may at any time decide to dispose of all or a portion of their investment in us. The sale or other disposition of a certain portion of our voting stock could cause the Company and its subsidiaries to experience a change of control, which may accelerate certain of the Company’s and its subsidiaries’ equity awards and other obligations and/or allow certain counterparties to terminate their agreements.

Among other things, such a change of control could result in a “change of control” under the Indentures, requiring us to offer to repurchase our 7.875% Notes or our 7.75% Notes or to redeem our preferred stock from the holders thereof.

No assurance can be provided that upon the occurrence of such an event, the Company will be able to obtain the required waivers, repay its indebtedness or secure alternative arrangements. See also Part I, Item IA. Risk Factors-Future sales of substantial amounts of our Common Stock may adversely affect our market price.”

Our officers, directors, stockholders and their respective affiliates may have a pecuniary interest in certain transactions in which we are involved, and may also compete with us.

We have not adopted a policy that expressly prohibits our directors, officers, stockholders or affiliates from having a direct or indirect pecuniary interest in any transaction to which we are a party or have an interest, nor do we have a

policy that expressly prohibits any such persons from engaging for their own account in business activities of the types conducted by us or our subsidiaries. We have engaged in transactions in which such persons have an interest and, subject to the terms of the Indentures and other applicable covenants in other financing arrangements or other agreements, may in the future enter into additional transactions in which such persons have an interest. In addition, such parties may have an interest in certain transactions such as strategic partnerships or joint ventures in which we are involved, and may also compete with us.

35

Table of Contents

In the course of their other business activities, certain conflicts of interest may arise with respect to HRG, its significant stockholders, affiliates, subsidiaries, and their respective directors, officers and affiliates. Certain of our and our significant stockholders, affiliates or subsidiaries' officers and directors may become aware of business opportunities which may be appropriate for presentation to us as well as the other entities with which they are or may be affiliated. Due to their affiliations with other entities, such persons may have obligations to present potential business opportunities to those entities, which could cause additional conflicts of interest. Accordingly, such persons may not present otherwise attractive business combination opportunities to us, our subsidiaries or investees. In addition, HRG currently has a number of, and may in the future acquire, additional significant stockholders, affiliates or subsidiaries ("Affiliated Persons"), some of which engage in business dealings with each other and HRG from time to time. As a result, conflicts of interest could arise with respect to transactions involving business dealings between HRG and the Affiliated Persons or between and among the Affiliated Persons, including potential business transactions and business services. It may not be possible to equally favor HRG and its subsidiaries in these business dealings, and the resolution of these conflicts may not always be equally in the best interest of HRG and its subsidiaries, which could have a material effect on HRG's and one or more of HRG's subsidiaries' financial condition and results of operations.

Future dispositions or acquisitions may not require a stockholder vote and may be material to us.

Any future dispositions or acquisitions could be material in size and scope, and our stockholders and potential investors may have limited information about the relevant disposition or acquisition upon which to base a decision whether to invest in our Common Stock. In any event, depending upon the size and structure of any dispositions or acquisitions, stockholders are generally expected to not have the opportunity to vote on the transaction, and may not have access to any information about any new business until the transaction is completed and we file a report with the Commission disclosing the nature of such transaction and/or business. Even if a stockholder vote is required for any future transactions, our amended and restated certificate of incorporation and our restated bylaws allow for our stockholders to approve such transactions by written consent, which may result in only our large stockholders having an opportunity to vote on such transactions.

Future acquisitions or dispositions or other business opportunities could involve unknown risks that could harm our business and adversely affect our financial condition.

We have in the past, and may in the future, make acquisitions or dispositions or pursue other business activities, directly or indirectly through our subsidiaries, that involve a number of risks. In the case of acquisitions, those risks may relate to the particular industry in which the business or acquisition targets operate, including risks in industries with which we are not familiar or experienced with, risks that are unknown to us and the financial, legal and operational risks related to such acquisition. In the case of disposition, those risks may relate to employment matters, counterparties, regulators and other stakeholders in the disposed business, risks unknown to us and risks related to the management of our business and the financial, legal and operational risks related to such disposition. Any such risks may result in one or more costly disputes or litigation. Although we intend to conduct extensive business, financial, operational and legal due diligence in connection with the evaluation any such opportunity, there can be no assurance our due diligence investigations will identify every matter that could have a material adverse effect on us. The realization of any such risks could expose us to unanticipated costs and liabilities and prevent or limit us from realizing the projected benefits of such acquisition, disposition or other business activity, which could adversely affect our financial condition and liquidity and our ability to service our debt.

Provisions in our organizational documents and applicable regulations may discourage the takeover of our company, may make removal of our management more difficult and may depress our stock price.

Our organizational documents contain provisions that may have an anti-takeover effect and inhibit a change in our management. They could also have the effect of discouraging others from making tender offers for our Common Stock. As a result, these provisions could prevent our stockholders from receiving a premium for their shares of Common Stock above the prevailing market prices. These provisions include:

- the authority of the Company's Board of Directors (the "Board") to issue, without stockholder approval, up to 10,000,000 shares of our preferred stock with such terms as our Board may determine;

special meetings of our stockholders may be called only by the Chairman of our Board or by our Corporate Secretary upon delivery of a written request executed by three directors (or, if there are fewer than three directors in office at that time, by all incumbent directors);

• a staggered Board, as a result of which only one of the three classes of directors is elected each year;

• advance notice requirements for nominations for election to our Board, or for proposing matters that can be acted on by stockholders at stockholder meetings;

• restrictions in our certificate of incorporation that impose limitations on the transfer of our securities, which are intended to protect our net operating losses and other tax attributes;

• the absence of cumulative voting rights;

Table of Contents

subject to any special rights of the holders of our preferred stock may have to elect directors, removal of incumbent directors only for cause.

Our amended and restated certificate of incorporation contains provisions that restrict mergers and other business combinations with an “Interested Stockholder” (as defined therein) or that may otherwise have the effect of preventing or delaying a change of control of our company. Our Board has waived the application of this provision to Leucadia and CF Turul. Also see Part I, Item IA. “Risk Related to HRG-HRG and certain of its subsidiaries, including Spectrum Brands and FGL, may not be able to fully utilize their net operating loss and other tax carryforward; restrictions in HRG’s certificate of incorporation intended to protect net operating losses and other tax attributes may limit transfer of HRG’s securities” for the restrictions on certain transfers of our Common Stock.

Under most states’ statutes, including those of Iowa and New York, acquiring 10% or more of the voting stock of an insurance company or its parent company is presumptively considered a change of control, although such presumption may be rebutted. Accordingly, any person who acquires 10% or more of the voting securities of HRG, FGL, FGH, FGL Insurance or FGL NY Insurance without the prior approval of the insurance regulators of Iowa and New York will be in violation of those states’ laws and may be subject to injunctive action requiring the disposition or seizure of those securities by the relevant insurance regulator, prohibiting the voting of those securities and/or other actions determined by the relevant insurance regulator. Any such investors will need to obtain approval to divest of their controlling interest, except for Leucadia, CF Turul and HCP, each of whom has obtained the necessary regulatory approval.

Our restated bylaws provide that the Court of Chancery of the State of Delaware will be the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our restated bylaws provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty, any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our amended and restated certificate of incorporation or our restated bylaws, any action to interpret, apply, enforce, or determine the validity of our amended and restated certificate of incorporation or restated bylaws, or any action asserting a claim against us that is governed by the internal affairs doctrine. The choice of forum provision may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and other employees. Alternatively, if a court were to find the choice of forum provision contained in our restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could adversely affect our business and financial condition.

The nature of certain of our assets is volatile and their value may fluctuate or change over short periods of time.

We are a holding company and as such, hold, directly or indirectly, various securities and debt instruments.

Investments in such securities and debt instruments involves significant risk, including the risk of partial or total loss of the value of such investments, particularly in light of uncertain domestic and global political, credit and financial market conditions. Any such loss may have a material adverse effect on our and our subsidiaries’ liquidity and results of operations, and can adversely affect our and our subsidiaries’ ability to service our debt and carry out our business strategy.

In addition, some of our subsidiaries are privately-held companies and some of our assets are illiquid securities, the fair values of which are not readily determinable. We value these securities for various purposes based on a number of factors, including, without limitation, third-party independent valuations. Because valuations, and particularly valuations of private and illiquid securities, are inherently uncertain, such valuations may fluctuate significantly over time and may differ materially from the values that would have been obtained if an active market existed for these securities.

Disruption or failures of our or our subsidiaries’ information technology systems could have a material adverse effect on our business.

Our and our subsidiaries’ information technology systems are susceptible to security breaches, operational data loss, general disruptions in functionality, and may not be compatible with new technology. We and our subsidiaries depend

on information technology systems for the effectiveness of operations and to interface with those with whom we and our subsidiaries conduct business, as well as to maintain financial and other records. Disruption or failures of such information technology systems could impair our or our subsidiaries' ability to effectively and timely conduct our operations and maintain financial records, which could damage our reputation and have a material adverse effect on our business.

Our ability to dispose of securities and debt interests may be limited by restrictive stockholder agreements, by the federal securities laws and by other regulations or market conditions.

When we acquire securities or debt instruments directly or indirectly through subsidiaries, we acquire securities or debt instruments that are illiquid and, when we acquire less than 100% of the equity interests of a company, we may be subject to restrictive terms of agreements with other equityholders. In addition, we may hold, and may in the future hold, securities and debt instruments that are not registered under the Securities Act and/or (as is the case with respect to our shares of Spectrum

Table of Contents

Brands and FGL) restricted securities under the Securities Act. Our ability to sell such securities and debt instruments could be limited by market conditions and the illiquid nature of such securities and debt instruments and could be limited to sales pursuant to: (i) an effective registration statement under the Securities Act covering the resale of those securities; (ii) Rule 144 under the Securities Act, which, among other things, requires a specified holding period and limits the manner and volume of sales; (iii) another applicable exemption under the Securities Act; or (iv) approval of certain regulators. We hold, and may in the future hold, large amounts of the securities or debt instruments of a particular issuer, which may limit our ability to sell such securities or debt instruments on economically attractive terms or at all. The inability to sell such securities or debt instruments when desired or necessary may have a material adverse effect on our financial condition and liquidity, which could adversely affect our ability to service our debt and our ability to carry out our business strategy.

We may suffer adverse consequences if we are deemed an investment company under the Investment Company Act and we may be required to incur significant costs to avoid investment company status and our activities may be restricted.

We believe that we are not an investment company under the Investment Company Act of 1940 (the “Investment Company Act”) and we intend to continue to make acquisitions and other investments in a manner so as not to be an investment company. The Investment Company Act contains substantive legal requirements that regulate the manner in which investment companies are permitted to conduct their business activities. If the Commission or a court were to disagree with us, we could be required to register as an investment company. This would negatively affect our ability to consummate acquisitions; subject us to disclosure and accounting guidance geared toward investment, rather than operating companies; limit our ability to borrow money, issue options, issue multiple classes of stock and debt, and engage in transactions with affiliates; and require us to undertake significant costs and expenses to meet the disclosure and regulatory requirements to which we would be subject as a registered investment company. In order not to be regulated as an investment company under the Investment Company Act, unless we can qualify for an exemption, we must ensure that we are engaged primarily in a business other than investing, reinvesting, owning, holding or trading in securities (as defined in the Investment Company Act) and that we do not own or acquire “investment securities” having a value exceeding 40% of the value of our total assets (exclusive of U.S. government securities and cash items) on an unconsolidated basis. To ensure that majority-owned investments, such as Spectrum Brands, do not become categorized as “investment securities,” we may need to make additional investments in these subsidiaries to offset any dilution of our interest that would otherwise cause such a subsidiary to cease to be majority-owned. We may also need to forego acquisitions that we would otherwise make or retain, or dispose of investments that we might otherwise hold.

There may be tax consequences associated with our acquisition, investment, holding and disposition of operating businesses and other assets.

We may incur significant taxes in connection with effecting acquisitions or investments, holding, receiving payments from, and operating businesses and other assets and disposing of operating businesses and other assets. Our decisions to make a particular acquisition, sell a particular asset or increase or decrease a particular investment may be based on considerations other than the timing and amount of taxes owed as a result.

HRG and certain of its subsidiaries, including Spectrum Brands and FGL, may not be able to fully utilize their net operating loss and other tax carryforward; restrictions in HRG’s certificate of incorporation intended to protect net operating losses and other tax attributes may limit transfer of HRG’s securities

As of September 30, 2016, HRG and Spectrum Brands had U.S. Federal net operating loss (“NOL”) carryforwards of approximately \$1,170.5 million and \$758.9 million, respectively that, if unused, will expire through year 2036. HRG and Spectrum Brands had tax benefits related to U.S. state NOL carryforwards of approximately \$93.9 million and \$60.6 million, respectively, at September 30, 2016, that, if unused, will expire through year 2036. As of September 30, 2016, HRG and Spectrum Brands had U.S. Federal capital loss carryforwards of approximately \$322.4 million and \$19.8 million, respectively that, if unused, will expire through year 2021; and Spectrum Brands had foreign loss carryforwards of approximately \$136.3 million, which will expire beginning in Fiscal 2017. As of September 30, 2016, FGL had a proforma non-life U.S. Federal NOL carryforwards of approximately \$133.6 million that, if unused, will expire in years 2026 through 2036 and had capital loss carryforwards of approximately \$6.0 million that, if

unused, will expire through year 2021. In addition, any future subsidiary that HRG or its subsidiaries may acquire may also have significant Federal, state, local and foreign NOL carryforwards. HRG and Spectrum Brands have established valuation allowances for these deferred tax assets, based on their assessments of the amounts of deferred tax assets that are not more-likely-than-not to be realizable. In addition, FGL has established a full valuation allowance for net deferred tax assets related to its non-life subsidiaries.

The ability of HRG and its subsidiaries (including any future subsidiary) to utilize their NOL and other tax carryforwards to reduce taxable income in future years may be limited for various reasons, including if projected future taxable income is insufficient to recognize the full benefit of such NOL carryforwards prior to their expiration. Additionally, the ability of HRG and its subsidiaries (including any future subsidiary) to fully use these tax assets could also be adversely affected if the respective companies were deemed to have an “ownership change” within the meaning of Sections 382 and 383 of the Code. An ownership change is generally defined as a greater than 50% increase in equity ownership by “5% shareholders” (as that term is defined for purposes of Sections 382 and 383 of the Code) in any three-year period. HRG and its subsidiaries (including Spectrum Brands and FGL) have experienced ownership changes that have limited the utilization of a portion of their NOL carryforwards and

Table of Contents

other carryforward tax attributes. Future ownership changes, including transfers or dispositions of our stock by HCP or other stockholders and conversions or redemptions of our preferred stock, could, depending on their magnitude, result in ownership changes that would trigger the imposition of additional limitations on the utilization of these tax assets under Sections 382 and 383. Accordingly, there can be no assurance that, in the future, HRG and/or its subsidiaries (including any future subsidiary) will not experience additional limitations on utilizing the tax benefits of their NOL and other tax carryforwards. Such limitations could have a material adverse effect on HRG and/or its subsidiaries' results of operations, cash flows or financial condition.

In order to reduce the likelihood that future transactions in our Common Stock will result in an ownership change under Section 382 of the Code ("Section 382"), on July 13, 2015, following receipt of stockholder approval, we filed an amendment to our amended and restated certificate of incorporation (the "Charter"). The Charter amendment is designed to reduce the likelihood of an "ownership change" under U.S. federal tax laws by restricting certain direct and indirect acquisitions and dispositions of our Common Stock. The restrictions imposed under the amendment apply to any direct and indirect holders of, or persons who would become holders of, 4.9% or more of our Common Stock (and certain other interests in the Company that are treated as stock for U.S. federal tax purposes). As of July 13, 2015, which is the date of the adoption of the Charter amendment, any direct or indirect transfer of our shares of Common Stock (or such other Company securities) in violation of the restrictions will be void as of the date of the purported transfer as to the purported transferee, and the purported transferee will not be recognized as the owner of such securities for any purpose, including for purposes of voting and receiving dividends or other distributions. These restrictions may adversely affect the ability of certain holders of our Common Stock to dispose of or acquire shares of our Common Stock and may have an adverse impact on the liquidity of our Common Stock generally.

Our Board will have the power to determine and interpret, in its sole discretion, all matters necessary for assessing compliance with the provisions of the Charter transfer restrictions. These matters include (i) the identification of a 4.9% stockholder, (ii) whether a transfer is a prohibited transfer, (iii) the percentage stock ownership interest in the Company of any person for the purposes of Section 382, (iv) whether an instrument constitutes a security of the Company, (v) the amount or fair market value due to a purported transferee pursuant to the alternate procedure described in the Charter, (vi) the interpretation of the provisions of the Charter amendment and (vii) any other matters which our Board determines to be relevant. To the extent permitted by law, the good faith determination of the Board on such matters will be conclusive and binding on all persons and entities for purposes of the Charter transfer restrictions.

In connection with its consideration of the Charter transfer restrictions, the Board has provided to CF Turul, the beneficial owner of 16.4% of our issued and outstanding Common Stock as of November 8, 2016, its approval, as required under the Charter transfer restrictions, to make, subject to specified limitations and other terms and conditions, one or more distributions of our shares of Common Stock on a substantially pro rata basis to the members of CF Turul and by such members and their affiliates to the ultimate owners who are not entities sponsored or organized by Fortress Investment Group LLC (such person each, a "Specified Holder"). In addition, the Board has also provided the funds affiliated with HCP, which were at the time a Specified Holder and the beneficial owner of approximately 10.3% of our issued and outstanding Common Stock, its approval, as required under the Charter transfer restrictions, to sell, subject to specified limitations and other terms and conditions, the shares of Common Stock that HCP held. It is our understanding that as of the date of this report HCP has disposed of a substantial amount of their stock and is no longer a Specified Holder.

While the Charter amendment is intended protect the benefits of our NOLs and other tax assets, there can be no assurance that we will not experience future transactions in our Common Stock that results in some or all of our NOLs attributes being lost or limited. For example, (i) our Board can permit a transfer to an acquirer that results in or contributes to an ownership change if it determines that such transfer is in our or our stockholders' best interests; (ii) a court could find that part or all of the charter transfer restrictions are not enforceable, either in general or as applied to a particular stockholder or fact situation; (iii) certain changes in relationships among our stockholders or other events not proscribed under the Charter amendment could contribute to or cause an ownership change under Section 382; and (iv) an ownership change could be caused or contributed to as a result of our own actions, such as issuing, repurchasing or redeeming shares of our Common Stock, which we remain free to do if our Board determines that it is

in our or our stockholders' best interests to do so.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to document and test our internal controls over financial reporting and to report on our assessment as to the effectiveness of these controls. Any delays or difficulty in satisfying these requirements or negative reports concerning our internal controls could adversely affect our future results of operations and financial condition.

We may in the future discover areas of our internal controls that need improvement, particularly with respect to our or our subsidiaries or businesses that we or our subsidiaries may acquire in the future, and newly formed businesses or entities. For instance, Compass has only recently transitioned to a stand-alone independent company with, among other things, its own reporting process and internal controls over financial reporting, and certain of our less significant subsidiaries may become more material to us and may have a greater impact on the effectiveness of our controls if the FGL Merger is consummated. We cannot be certain that we or our subsidiaries will develop, implement, and maintain adequate internal controls over financial reporting in the future.

In addition, we or our subsidiaries may acquire an entity that was not previously subject to U.S. public company requirements or did not previously prepare financial statements in accordance with the United States Generally Accepted Accounting Principles

Table of Contents

(“U.S. GAAP”) or is not in compliance with the requirements of the Sarbanes-Oxley Act of 2002 or other public company reporting obligations applicable to such entity directly or through us. We or our subsidiaries may incur significant additional costs in order to ensure, that after such acquisition, HRG or our subsidiaries continue to comply with the requirements of the Sarbanes-Oxley Act of 2002 and its other public company requirements, which, in turn, would reduce our earnings and negatively affect our liquidity or cause us to fail to meet our or our subsidiaries reporting obligations. In addition, development of an adequate financial reporting system and the internal controls of any such entity to achieve compliance with the Sarbanes-Oxley Act of 2002 may increase the time and costs necessary to complete any such acquisition or cause us or our subsidiaries to fail to meet our reporting obligations. To the extent any of these newly-acquired entities or any existing entities have deficiencies in their internal controls, it may impact our internal controls.

Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our or our subsidiaries’ operating results or cause us or our subsidiaries to fail to meet our respective reporting obligations. If we or our subsidiaries are unable to conclude that we or our subsidiaries have effective internal controls over financial reporting, or if our or our subsidiaries’ independent registered public accounting firm is unable to provide us or our subsidiaries with an unqualified report regarding the effectiveness of our or our subsidiaries’ internal controls over financial reporting to the extent required by Section 404 of the Sarbanes-Oxley Act of 2002, investors could lose confidence in the reliability of our or our subsidiaries’ financial statements. Failure to comply with Section 404 of the Sarbanes-Oxley Act of 2002 could potentially subject us or our subsidiaries to sanctions or investigations by the Commission, or other regulatory authorities. In addition, failure to comply with our reporting obligations with the Commission may cause an event of default to occur under the Indentures, or similar instruments governing any debt we or our subsidiaries incur in the future.

Limitations on liability and indemnification matters.

As permitted by Delaware law, we have included in our amended and restated certificate of incorporation a provision to eliminate the personal liability of our directors for monetary damages for breach or alleged breach of their fiduciary duties as directors, subject to certain exceptions. Our restated bylaws also provide that we are required to indemnify our directors under certain circumstances, including those circumstances in which indemnification would otherwise be discretionary, and we will be required to advance expenses to our directors as incurred in connection with proceedings against them for which they may be indemnified. In addition, we may, by action of our Board, provide indemnification and advance expenses to our officers, employees and agents (other than directors), to directors, officers, employees or agents of a subsidiary of the Company, and to each person serving as a director, officer, partner, member, employee or agent of another corporation, partnership, limited liability company, joint venture, trust or other enterprise, at our request, with the same scope and effect as the indemnification of our directors provided in our restated bylaws.

We and our subsidiaries may be adversely affected by further deterioration in economic conditions.

From December 2007 through June 2009, the U.S. economy was in recession. Business activity across a wide range of industries and regions in the U.S. was greatly reduced. Although economic conditions have begun to improve, certain sectors remain weak and unemployment remains high. Local governments and many businesses are in serious difficulty due to lower consumer spending and the lack of liquidity in the credit markets.

In 2011 and 2012, concern over sovereign debt in Greece, Spain, Italy and certain other European Union countries caused significant fluctuations of the Euro, relative to other currencies, such as the U.S. Dollar. Criticism of excessive national debt among certain European Union countries has led to credit downgrades of the sovereign debt of several countries in the region, and uncertainty about the future status of the Euro. Destabilization of the European economy could lead to a decrease in consumer confidence, which could cause reductions in discretionary spending and demand for our subsidiary Spectrum Brands’ products. Furthermore, sovereign debt issues could also lead to further significant, and potentially longer-term, economic issues, such as reduced economic growth and devaluation of the Euro against the U.S. Dollar, any of which could adversely affect our and each of our subsidiaries’ business, financial condition and operating results. See the risk factor entitled “Spectrum Brands faces risks relating to the United Kingdom’s 2016 referendum, which called for its exit from the European Union” in this Form 10-K.

Additionally, a slowing of improvement or a return to deteriorating business and economic conditions could have one or more of the following adverse effects, in particular, on Salus' business: a decrease in net interest income derived from Salus' lending and investment activities, as applicable; a decrease in the value of Salus' assets, including the value of assets pledged as collateral by Salus' borrowers, as applicable; an impairment of certain intangible assets, such as goodwill; and an increase in the number of borrowers and counterparties who become delinquent, file for protection under bankruptcy laws or default on its loans or other obligations to Salus, as applicable. An increase in the number of delinquencies, bankruptcies or defaults could result in a higher level of nonperforming assets, net charge-offs, provision for loan losses and valuation adjustments on Salus' loans, as applicable, which may negatively impact Salus' ability to wind down its operations in an orderly manner.

We may issue additional shares of common stock or preferred stock which would dilute the interests of our stockholders and could present other risks.

Our amended and restated certificate of incorporation authorizes the issuance of up to 500,000,000 shares of common stock and 10,000,000 shares of preferred stock. As of November 17, 2016, we had 200,908,522 shares of our common stock outstanding.

Table of Contents

In addition, as of November 17, 2016, we have 9,065,477 shares of common stock remaining for issuance pursuant to the HRG Group, Inc. 2011 Omnibus Equity Award Plan (formerly, Harbinger Group Inc. 2011 Omnibus Equity Award Plan, as amended (the “2011 Plan”)) and 1,200,000 shares of common stock remaining for issuance pursuant to the Harbinger Group Inc. 2014 Warrant Plan.

Price fluctuations in our Common Stock could result from general market and economic conditions and a variety of other factors, including factors that affect the volatility of the common stock of any of our publicly-held subsidiaries. The trading price of our Common Stock may be highly-volatile and could be subject to fluctuations in response to a number of factors beyond our control, including:

- actual or anticipated fluctuations in our results of operations and the performance of our subsidiaries and their competitors;
- reaction of the market to our announcement of any future acquisitions, dispositions, or other business opportunities by us or our subsidiaries, including the Company’s review of strategic alternatives and the timing and status of the FGL Merger;
- the public’s reaction to our and/or our subsidiaries’ press releases, our other public announcements and our filings with the Commission;
- changes in general economic conditions;
- actions of our historical equity investors, including sales of common stock by our significant stockholders, our directors and our executive officers; and
- actions by institutional investors or our significant stockholders trading in our stock.

In addition, the trading price of our Common Stock could be subject to fluctuations in response to a number of factors that affect the volatility of the common stock of any of our subsidiaries, such as Spectrum Brands and FGL, which are publicly traded.

Future sales of substantial amounts of our Common Stock may adversely affect our market price.

We have granted registration rights to Leucadia and CF Turul and certain of their transferees under a registration rights agreement, to facilitate the resale of their shares of our Common Stock. Under this registration rights agreement, Leucadia and CF Turul, and certain of their transferees have the right, subject to certain conditions, to require us to register the sale of their shares or their permitted transferees’ shares under the federal securities laws. By exercising their registration rights, and selling all or a portion of their shares, Leucadia and CF Turul and their permitted transferees could cause the prevailing market price of our Common Stock to decline. We have filed several registration statements on Form S-3 that have registered the sale of a substantial amount of our Common Stock, from time to time, in secondary offerings by the stockholders listed therein. Furthermore, the shares of our Common Stock owned by Leucadia and CF Turul may also be sold in the public market under Rule 144 of the Securities Act. We have, in the past, issued a substantial amount of shares of preferred stock, the majority of which were subsequently converted into shares of our Common Stock. We may issue a substantial amount of preferred stock in the future. If these rights are exercised in full, it might adversely affect the market price of our Common Stock.

Future sales of substantial amounts of our Common Stock into the public market, or perceptions in the market that such sales could occur, may adversely affect the prevailing market price of our Common Stock and impair our ability to raise capital through the sale of additional equity securities.

The market liquidity for our Common Stock is relatively low and may make it difficult to purchase or sell our stock. The daily trading volume in our Common Stock is volatile and relatively low, which may make it difficult to purchase or sell shares of our Common Stock. Although a more active trading market may develop in the future, there can be no assurance as to the liquidity of any markets that may develop for our Common Stock or the prices at which holders may be able to sell our Common Stock and the limited market liquidity for our stock could affect a stockholder’s ability to sell at a price satisfactory to that stockholder.

From time to time, we and our subsidiaries may be subject to litigation for which we and our subsidiaries may be unable to accurately assess our level of exposure and which, if adversely determined, may have a material adverse effect on our consolidated financial condition or results of operations.

We and our subsidiaries are or may become parties to legal proceedings related to our or their current or prior businesses for which, depending on the circumstances, a reserve may not have been established or otherwise provided

for or insured against. There can be no assurance that we will prevail in any litigation in which we or our subsidiaries may become involved, or that our or their insurance coverage will be adequate to cover any or all potential losses. In addition, from time to time, we may decide to settle litigation involving us or our subsidiaries for a variety of reasons and regardless of our perceived merits of the claims related to such litigation. Such settlements may include non-monetary, as well as monetary terms. To the extent that we or our subsidiaries sustain losses from such proceeding which are not reserved or otherwise provided for or insured against, our business, results of operations, cash flows and/or financial condition could be materially adversely affected. See Part I, Item 3. "Legal Proceedings."

Table of Contents

Agreements, transactions and litigation involving or resulting from the activities of our predecessor and its former subsidiaries may subject us to future claims or litigation that could materially adversely impact our capital resources. HRG is the successor to Zapata Corporation, which was a holding company engaged, through its subsidiaries, in a number of business activities. The activities of our predecessor company and its subsidiaries may subject us to future claims or litigation regardless of the merit of such claims or litigation and the defenses available to us and our subsidiaries. The time and expense that we may be required to dedicate to such matters may be material to us and our subsidiaries and may adversely impact our capital resources. In addition, throughout our history, our predecessor company entered into numerous transactions relating to the sale, disposal or spinoff of its partially and wholly-owned subsidiaries. We may have continuing obligations pursuant to certain of these transactions, including obligations to indemnify other parties to agreements, and may be subject to risks resulting from these transactions. See Part I, Item 3. “Legal Proceedings.”

Risks Related to Spectrum Brands’ Business

Spectrum Brands is a parent company with limited business operations of its own. Its main asset is the capital stock of its subsidiaries, including SBI. Spectrum Brands conducts most of its business operations through its subsidiaries and its primary source of cash is and will be distributions from its subsidiaries.

Spectrum Brands’ primary sources of cash are dividends and distributions with respect to its ownership interests in its subsidiaries that are derived from their earnings and cash flow. Spectrum Brands’ and SBI’s subsidiaries might not generate sufficient earnings and cash flow to pay dividends or distributions in the future. Spectrum Brands’ and SBI’s subsidiaries’ payments to their respective parent will be contingent upon their earnings, upon other business considerations and compliance with the terms of SBI’s indebtedness.

SBI substantial indebtedness may limit its financial and operating flexibility, and Spectrum Brands may incur additional debt, which could increase the risks associated with its substantial indebtedness.

SBI has, and expects to continue to have, a significant amount of indebtedness. As of September 30, 2016, SBI had total indebtedness under senior secured facilities (the “SBI Senior Secured Facilities”), notes (the “SBI Notes”) and other debt instruments of approximately \$3.7 billion. SBI’s substantial indebtedness has had, and could continue to have, material adverse consequences for its business, and may:

- require Spectrum Brands to dedicate a large portion of its cash flow to pay principal and interest on its indebtedness, which will reduce the availability of its cash flow to fund working capital, capital expenditures, research and development expenditures and other business activities;

- increase its vulnerability to general adverse economic and industry conditions;

- limit its flexibility in planning for, or reacting to, changes in its business and the industry in which Spectrum Brands operates;

- restrict its ability to make strategic acquisitions, dispositions or to exploit business opportunities;

- place Spectrum Brands at a competitive disadvantage compared to its competitors that have less debt; and

- limit its ability to borrow additional funds (even when necessary to maintain adequate liquidity) or dispose of assets.

Under the SBI Senior Secured Facilities and indentures governing the SBI Notes (together, the “SBI Indentures”), SBI may incur additional indebtedness. If new debt is added to its existing debt levels, the related risks that Spectrum Brands now faces would increase.

Furthermore, a portion of SBI’s debt bears interest at variable rates. If market interest rates increase, the interest rate on SBI’s variable rate debt will increase and will create higher debt service requirements, which would adversely affect SBI’s cash flow and could adversely impact SBI’s results of operations. While SBI may enter into agreements limiting SBI’s exposure to higher debt service requirements, any such agreements may not offer complete protection from this risk.

Restrictive covenants in the SBI Senior Secured Facilities and the SBI Indentures may restrict SBI’s ability to pursue its business strategies.

The SBI Senior Secured Facilities and the SBI Indentures each restrict, among other things, asset dispositions, mergers and acquisitions, dividends, stock repurchases and redemptions, other restricted payments, indebtedness and preferred stock, loans and investments, liens and affiliate transactions. The SBI Senior Secured Facilities and the SBI

Indentures also contain customary events of default. These covenants could, among other things, limit SBI's ability to fund future working capital and capital expenditures, engage in future acquisitions or development activities, or otherwise realize the value of its assets and opportunities fully. In addition, the SBI Senior Secured Facilities and the SBI Indentures require SBI to dedicate a portion of cash flow from operations to payments on debt and also contain borrowing restrictions based on, among other things, Spectrum Brands' fixed charge coverage ratio. Furthermore, the credit agreement governing the SBI Senior Secured Facilities contains a financial covenant relating to maximum leverage. Such requirements and covenants could limit the flexibility of SBI's restricted entities in planning for, or reacting to, changes in the industries in which they operate. SBI's ability to comply with these covenants is

Table of Contents

subject to certain events outside of its control. If SBI is unable to comply with these covenants, the lenders under the SBI Senior Secured Facilities could terminate their commitments and the lenders under the SBI Senior Secured Facilities or the holders of the SBI Notes could accelerate repayment of SBI' outstanding borrowings and, in either case, SBI may be unable to obtain adequate refinancing of outstanding borrowings on favorable terms or at all. If SBI is unable to repay outstanding borrowings when due, the lenders under the SBI Senior Secured Facilities will also have the right to proceed against the collateral granted to them to secure the indebtedness owed to them. If SBI's obligations under the SBI Senior Secured Facilities are accelerated, SBI cannot assure you that its assets would be sufficient to repay in full such indebtedness.

The sale or other disposition by HRG, the holder of a majority of the outstanding shares of Spectrum Brands' common stock, to non-affiliates of a sufficient amount of the common stock of Spectrum Brands would constitute a change of control under the agreements governing Spectrum Brands' debt.

HRG owns a majority of the outstanding shares of the common stock of Spectrum Brands. The sale or other disposition by HRG to non-affiliates of a sufficient amount of the common stock of Spectrum Brands could constitute a change of control under certain of the facilities governing Spectrum Brands' debt, including any foreclosure on or sale of Spectrum Brands' common stock pledged as collateral by HRG pursuant to the indenture governing HRG's 7.875% Senior Secured Notes due 2019. Under the SBI's Senior Secured Facilities, a change of control is an event of default and, if a change of control were to occur, Spectrum Brands would be required to amend these agreements to avoid a default. If Spectrum Brands was unable to amend these facilities, the lenders could accelerate the maturity of any outstanding debt under these facilities. In addition, under the SBI Indentures, upon a change of control of Spectrum Brands, SBI is required to offer to repurchase the SBI Notes from the holders at a price equal to 101% of the principal amount of the SBI Notes plus accrued interest or obtain a waiver of default from the holders of such notes. If SBI is unable to make the change of control offer, or to obtain a waiver of default, it would be an event of default under the SBI Indentures that could allow holders of such notes to accelerate the maturity of the SBI Notes.

Spectrum Brands faces risks related to the current economic environment.

The economic environment and related turmoil in the global financial system in recent years had an impact on Spectrum Brands' business and financial condition, and Spectrum Brands may face additional challenges if economic and financial market conditions deteriorate in the future.

Global economic conditions have significantly impacted economic markets within certain sectors, with financial services and retail businesses being particularly impacted. Spectrum Brands' ability to generate revenue depends significantly on discretionary consumer spending. It is difficult to predict new general economic conditions that could impact consumer and customer demand for Spectrum Brands' products or Spectrum Brands' ability to manage normal commercial relationships with its customers, suppliers and creditors. A number of negative economic factors, including constraints on the supply of credit to households, uncertainty and weakness in the labor market and general consumer fears of a new economic downturn could have a negative impact on discretionary consumer spending. If the economy deteriorates or fails to further improve, Spectrum Brands' business could be negatively impacted, including as a result of reduced demand for its products or supplier or customer disruptions. Any weakness in discretionary consumer spending could have a material adverse effect on Spectrum Brands' revenues, results of operations and financial condition. In addition, Spectrum Brands' ability to access the capital markets may be restricted at a time when it could be necessary or beneficial to do so, which could have an impact on Spectrum Brands' flexibility to react to changing economic and business conditions.

In the last few years, concern over continuing high unemployment, stagnant economic performance and government debt levels in many European Union countries caused significant fluctuations of the Euro relative to other currencies, such as the U.S. Dollar. Continued weakness of the European economy could lead to a decrease in consumer confidence, which could cause reductions in discretionary spending and demand for our products. Furthermore, sovereign debt issues could also lead to further significant, and potentially longer-term, economic issues such as reduced economic growth and devaluation of the Euro against the U.S. Dollar, any of which could adversely affect Spectrum Brands' business, financial conditions and operating results. Moreover, risks related to the United Kingdom's 2016 referendum to exit the European Union could exacerbate the foregoing risks and create additional uncertainty for Spectrum Brands' business. See the risk factor entitled "Spectrum Brands faces risks relating the United Kingdom's

2016 referendum, which called for its exit from the European Union” in this form 10-K.

Spectrum Brands participates in very competitive markets and it may not be able to compete successfully, causing Spectrum Brands to lose market share and sales.

Spectrum Brands competes for consumer acceptance and limited shelf space based upon brand name recognition, perceived product quality, price, performance, product features and enhancements, product packaging and design innovation, as well as creative marketing, promotion and distribution strategies, and new product introductions. Spectrum Brands’ ability to compete in these consumer product markets may be adversely affected by a number of factors, including, but not limited to, the following:

Spectrum Brands competes against many well-established companies that may have substantially greater financial and other resources, including personnel and research and development, and greater overall market share than Spectrum Brands.

Table of Contents

In some key product lines, Spectrum Brands' competitors may have lower production costs and higher profit margins than Spectrum Brands, which may enable them to compete more aggressively in offering retail discounts, rebates and other promotional incentives.

Technological advancements, product improvements or effective advertising campaigns by competitors may weaken consumer demand for Spectrum Brands' products.

Consumer purchasing behavior may shift to distribution channels, including to online retailers, where Spectrum Brands and its customers do not have a strong presence.

Consumer preferences may change to lower margin products or products other than those that Spectrum Brands markets.

Spectrum Brands may not be successful in the introduction, marketing and manufacture of any new products or product innovations or be able to develop and introduce, in a timely manner, innovations to its existing products that satisfy customer needs or achieve market acceptance.

In the consumer battery product category, Spectrum Brands' primary competitors are Duracell (a brand of Berkshire Hathaway), Energizer and Panasonic (a brand of Matsushita). In the personal care product category, Spectrum Brands' primary competitors are Braun (a licensed brand of Procter & Gamble), Norelco (a brand of Philips), and Conair, Wahl, and Helen of Troy. In PET business, Spectrum Brands' primary competitors are Central Garden & Pet, Mars and Hartz. In the H&G business, Spectrum Brands' principal national competitors are Scotts, Central Garden & Pet and S.C. Johnson. Spectrum Brands' principal national competitors within Spectrum Brands' small appliances product category include Newell Brands, DeLonghi America, SharkNinja (f/k/a Euro-Pro Operating LLC), NACCO Industries, Inc. and SEB S.A. In the HHI business, Spectrum Brands' principal competitors are Fortune Brands, Allegion, Masco, Kohler and American Standard. In the GAC business, Spectrum Brands' primary competitors are Valvoline, Prestone, Turtle Wax, Black Magic, Energizer and store brands.

In addition, in a number of Spectrum Brands' product lines, Spectrum Brands competes with its retail customers, who use their own private label brands, and with distributors and foreign manufacturers of unbranded products. Significant new competitors or increased competition from existing competitors may adversely affect Spectrum Brands' business, financial condition and results of Spectrum Brands' operations.

Some competitors may be willing to reduce prices and accept lower profit margins to compete with Spectrum Brands. As a result of this competition, Spectrum Brands could lose market share and sales, or be forced to reduce its prices to meet competition. If Spectrum Brands' product offerings are unable to compete successfully, Spectrum Brands' sales, results of operations and financial condition could be materially and adversely affected. In addition, Spectrum Brands may be unable to implement changes to its products or otherwise adapt to changing consumer trends. If Spectrum Brands is unable to respond to changing consumer trends, its operating results and financial condition could be adversely affected.

Spectrum Brands faces risks relating to the United Kingdom's 2016 referendum, which called for its exit from the European Union.

The announcement of the referendum regarding the United Kingdom's ("UK") membership in the European Union ("EU") on June 23, 2016 (referred to as "Brexit"), advising for the exit of the UK from the EU, has adversely impacted global markets and foreign currencies. In particular, the value of the Pound Sterling has sharply declined as compared to the US Dollar and other currencies. This volatility in foreign currencies is expected to continue as the UK negotiates and executes its exit from the EU, but there is uncertainty over what time period this will occur. A significantly weaker Pound Sterling compared to the US Dollar could have a significant negative effect on Spectrum Brands' business, financial condition and results of operations. The decrease in value to the Pound Sterling and impacts across global markets and foreign currencies may influence trends in consumer confidence and discretionary spending habits, but given the lack of precedent and uncertainty, it is unclear how the implications will affect Spectrum Brands.

The UK is expected to remain a member of the EU for some period of time and there is generally not expected to be any immediate change in either EU or UK law as a consequence of the "leave" vote. However, Spectrum Brands can provide no assurances that such consequences will not occur. Negotiations will commence to determine the future terms of the UK relationship with the EU, including, among other things, the terms of trade between the UK and the EU. The effects of Brexit will depend on many factors, including any agreements that the UK makes to retain access

to EU markets either during a transitional period or more permanently. Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the UK determines which EU laws to replace or replicate. Any of these effects of Brexit and others we cannot anticipate, could materially and adversely affect Spectrum Brands' business, business opportunities, results of operations, financial condition, liquidity and cash flows.

Sales of certain of Spectrum Brands' products are seasonal and may cause its operating results and working capital requirements to fluctuate.

On a consolidated basis Spectrum Brands' financial results are approximately equally weighted across its fiscal quarters, however, sales of certain product categories tend to be seasonal. Sales from Spectrum Brands' GBA product line, primarily from consumer battery and electric personal care product categories tend to increase during the December holiday season (Spectrum Brands' first fiscal quarter), while small appliances sales increase from July through December primarily due to the increased demand

Table of Contents

by customers in the late summer for “back-to-school” sales (Spectrum Brands’ fourth fiscal quarter) and in December for the holiday season. Sales from Spectrum Brands’ HHI product line primarily increase during the spring and summer construction period (Spectrum Brands’ third and fourth fiscal quarters). Sales from Spectrum Brands’ PET product line remain fairly consistent throughout the year with little variation. Sales from Spectrum Brands’ H&G product line and GAC product line typically peak during the first six months of the calendar year (Spectrum Brands’ second and third fiscal quarters) due to customer seasonal purchasing patterns and timing of promotional activities. As a result of this seasonality, Spectrum Brands’ inventory and working capital needs fluctuate significantly throughout the year. In addition, orders from retailers are often made late in the period preceding the applicable peak season, making forecasting of production schedules and inventory purchases difficult. If Spectrum Brands is unable to accurately forecast and prepare for customer orders or its working capital needs, or there is a general downturn in business or economic conditions during these periods, Spectrum Brands’ business, financial condition and results of operations could be materially and adversely affected.

Adverse weather conditions during Spectrum Brands’ peak selling seasons for its home and garden control and auto care products could have a material adverse effect on its home and garden business and auto care business.

Weather conditions have a significant impact on the timing and volume of sales of certain of Spectrum Brands’ lawn and garden and household insecticide and repellent products. For example, periods of dry, hot weather can decrease insecticide sales, while periods of cold and wet weather can slow sales of herbicides. Adverse weather conditions during the first six months of the calendar year (Spectrum Brands’ second and third fiscal quarters), when demand for home and garden control products typically peaks, could have a material adverse effect on Spectrum Brands’ home and garden business and its financial results during such period. Weather can also influence customer behavior for Spectrum Brands’ auto care products, especially with appearance and A/C recharge products, which sell best during warm, dry weather. There could be a material adverse effect on the auto care segment if the weather is cold or wet, during the spring and summer seasons when demand for Spectrum Brands’ auto care products typically peaks. Spectrum Brands is subject to significant international business risks that could hurt its business and cause its results of operations to fluctuate.

Approximately 36% of Spectrum Brands’ net sales for Fiscal 2016 were to customers outside of the U.S. Spectrum Brands’ pursuit of international growth opportunities may require significant investments for an extended period before returns on these investments, if any, are realized. Spectrum Brands’ international operations are subject to risks including, among others:

- currency fluctuations, including, without limitation, fluctuations in the foreign exchange rate of the Euro, British Pound, Brazilian Real, Canadian Dollar, Australian Dollar, Japanese Yen and the Mexican Peso;
- changes in the economic conditions or consumer preferences or demand for its products in these markets;
- the risk that because its brand names may not be locally recognized, Spectrum Brands must spend significant amounts of time and money to build brand recognition without certainty that Spectrum Brands will be successful;
- labor unrest;
- political and economic instability, as a result of war, terrorist attacks, pandemics, natural disasters or otherwise;
- lack of developed infrastructure;
- longer payment cycles and greater difficulty in collecting accounts;
- restrictions on transfers of funds;
- import and export duties and quotas, as well as general transportation costs;
- changes in domestic and international customs and tariffs;
- changes in foreign labor laws and regulations affecting Spectrum Brands’ ability to hire and retain employees;
- inadequate protection of intellectual property in foreign countries;
- unexpected changes in regulatory environments;
- difficulty in complying with foreign law; and
- adverse tax consequences.

The foregoing factors may have a material adverse effect on Spectrum Brands’ ability to increase or maintain its supply of products, financial condition or results of operations.

Spectrum Brands' products utilize certain key raw materials; any significant increase in the price of, or change in supply and demand for, these raw materials could have a material and adverse effect on its business, financial condition and profits.

The principal raw materials used to produce Spectrum Brands' products-including zinc powder, brass, electrolytic manganese dioxide powder, petroleum-based plastic materials, steel, aluminum, copper and corrugated materials (for packaging)-are sourced either on a global or regional basis by Spectrum Brands or its suppliers, and the prices of those raw materials are susceptible to price fluctuations due to supply and demand trends, energy costs, transportation costs, government regulations, duties and tariffs,

Table of Contents

changes in currency exchange rates, price controls, general economic conditions and other unforeseen circumstances. In particular, during the years 2012 and 2013, Spectrum Brands experienced extraordinary price increases for raw materials, particularly as a result of strong demand from China. Although Spectrum Brands may increase the prices of certain of its goods to its customers, Spectrum Brands may not be able to pass all of these cost increases on to its customers. As a result, its margins may be adversely impacted by such cost increases. Spectrum Brands cannot provide any assurance that its sources of supply will not be interrupted due to changes in worldwide supply of or demand for raw materials or other events that interrupt material flow, which may have an adverse effect on its profitability and results of operations.

Spectrum Brands regularly engages in forward purchase and hedging derivative transactions in an attempt to effectively manage and stabilize some of the raw material costs it expects to incur over the next 12 to 24 months. However, Spectrum Brands' hedging positions may not be effective, or may not anticipate beneficial trends, in a particular raw material market or may, as a result of changes in its business, no longer be useful for Spectrum Brands. In addition, for certain of the principal raw materials Spectrum Brands uses to produce its products, such as electrolytic manganese dioxide powder, there are no available effective hedging markets. If these efforts are not effective or expose Spectrum Brands to above average costs for an extended period of time, and Spectrum Brands is unable to pass its raw materials costs on to its customers, Spectrum Brands' future profitability may be materially and adversely affected. Furthermore, with respect to transportation costs, certain modes of delivery are subject to fuel surcharges which are determined based upon the current cost of diesel fuel in relation to pre-established agreed upon costs. Spectrum Brands may be unable to pass these fuel surcharges on to its customers, which may have an adverse effect on its profitability and results of operations.

In addition, Spectrum Brands has exclusivity arrangements and minimum purchase requirements with certain of its suppliers for the home and garden business, which increase its dependence upon and exposure to those suppliers. Some of those agreements include caps on the price Spectrum Brands pays for its supplies and in certain instances, these caps have allowed Spectrum Brands to purchase materials at below market prices. When Spectrum Brands attempts to renew those contracts, the other parties to the contracts may not be willing to include or may limit the effect of those caps and could even attempt to impose above market prices in an effort to make up for any below market prices paid by Spectrum Brands prior to the renewal of the agreement. Any failure to timely obtain suitable supplies at competitive prices could materially adversely affect Spectrum Brands' business, financial condition and results of operations.

Consolidation of retailers and Spectrum Brands' dependence on a small number of key customers for a significant percentage of its sales may negatively affect its business, financial condition and results of operations.

As a result of consolidation of retailers and consumer trends toward national mass merchandisers, a significant percentage of Spectrum Brands' sales are attributable to a limited group of customers. Spectrum Brands' largest customer, Wal-Mart, accounted for approximately 15% of its consolidated net sales for Fiscal 2016. As these mass merchandisers and retailers grow larger and become more sophisticated, they may demand lower pricing, special packaging or impose other requirements on product suppliers. These business demands may relate to inventory practices, logistics or other aspects of the customer-supplier relationship. Because of the importance of these key customers, demands for price reductions or promotions, reductions in their purchases, changes in their financial condition or loss of their accounts could have a material adverse effect on Spectrum Brands' business, financial condition and results of operations.

Although Spectrum Brands has long-established relationships with many of its customers, Spectrum Brands does not have long-term agreements with them and purchases are generally made through the use of individual purchase orders. Any significant reduction in purchases, failure to obtain anticipated orders or delays or cancellations of orders by any of these major customers, or significant pressure to reduce prices from any of these major customers, could have a material adverse effect on Spectrum Brands' business, financial condition and results of operations. Additionally, a significant deterioration in the financial condition of the retail industry in general, the bankruptcy of any of Spectrum Brands' customers or any of Spectrum Brands' customers ceasing operations could have a material adverse effect on Spectrum Brands' sales and profitability.

As a result of retailers maintaining tighter inventory control, Spectrum Brands faces risks related to meeting demand and storing inventory.

As a result of the desire of retailers to more closely manage inventory levels, there is a growing trend among them to purchase products on a “just-in-time” basis. Due to a number of factors, including (i) manufacturing lead-times, (ii) seasonal purchasing patterns and (iii) the potential for material price increases, Spectrum Brands may be required to shorten its lead-time for production and more closely anticipate its retailers’ and customers’ demands, which could in the future require Spectrum Brands to carry additional inventories and increase its working capital and related financing requirements. This may increase the cost of warehousing inventory or result in excess inventory becoming difficult to manage, unusable or obsolete. In addition, if Spectrum Brands retailers significantly change their inventory management strategies, Spectrum Brands may encounter difficulties in filling customer orders or in liquidating excess inventories, or may find that customers are cancelling orders or returning products, which may have a material adverse effect on its business.

Furthermore, Spectrum Brands primarily sells branded products and a move by one or more of its large customers to sell significant quantities of private label products, which Spectrum Brands does not produce on their behalf and which directly

Table of Contents

compete with Spectrum Brands products, could have a material adverse effect on Spectrum Brands' business, financial condition and results of operations.

As a result of its international operations, Spectrum Brands faces a number of risks related to exchange rates and foreign currencies.

Spectrum Brands' international sales and certain of its expenses are transacted in foreign currencies. During Fiscal 2016, approximately 36% of Spectrum Brands' net sales and operating expenses were denominated in foreign currencies. Spectrum Brands expects that the amount of its revenues and expenses transacted in foreign currencies will increase as its Latin American, European and Asian operations grow and as a result of acquisitions in these markets and, as a result, its exposure to risks associated with foreign currencies could increase accordingly. Significant changes in the value of the U.S. dollar in relation to foreign currencies will affect Spectrum Brands' cost of goods sold and its operating margins and could result in exchange losses or otherwise have a material effect on Spectrum Brands' business, financial condition and results of operations. Changes in currency exchange rates may also affect Spectrum Brands' sales to, purchases from, and loans to, its subsidiaries, as well as sales to, purchases from, and bank lines of credit with, its customers, suppliers and creditors that are denominated in foreign currencies.

Spectrum Brands sources many products from China and other Asian countries. To the extent the Chinese Renminbi ("RMB") or other currencies appreciate with respect to the U.S. dollar, Spectrum Brands may experience fluctuations in Spectrum Brands' results of operations. Since 2005, the RMB has no longer been pegged to the U.S. dollar at a constant exchange rate and instead fluctuates versus a basket of currencies. Although the People's Bank of China has historically intervened in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the RMB may appreciate or depreciate within a flexible peg range against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future Chinese authorities may lift restrictions on fluctuations in the RMB exchange rate and lessen intervention in the foreign exchange market.

While Spectrum Brands may enter into hedging transactions in the future, the availability and effectiveness of these transactions may be limited, and Spectrum Brands may not be able to successfully hedge its exposure to currency fluctuations. Further, Spectrum Brands may not be successful in implementing customer pricing or other actions in an effort to mitigate the impact of currency fluctuations and, thus, its results of operations may be adversely impacted. Spectrum Brands' international operations may expose it to risks related to compliance with the laws and regulations of foreign countries.

Spectrum Brands is subject to three EU Directives that may have a material impact on its business: Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment ("RUHSEEE"); Waste Electrical and Electronic Equipment ("WEEE"); and the Directive on Batteries and Accumulators and Waste Batteries ("DBAWB"), discussed below. RUHSEEE requires Spectrum Brands to eliminate specified hazardous materials from products it sells in EU member states. WEEE requires Spectrum Brands to collect and treat, dispose of or recycle certain products it manufactures or imports into the EU at its own expense. The EU DBAWB bans heavy metals in batteries by establishing maximum quantities of heavy metals in batteries and mandates waste management of these batteries, including collection, recycling and disposal systems, with the costs imposed upon producers and importers such as Spectrum Brands. The costs associated with maintaining compliance or failing to comply with the EU Directives may harm Spectrum Brands' business. For example:

Although contracts with its suppliers address related compliance issues, Spectrum Brands may be unable to procure appropriate RUHSEEE-compliant material in sufficient quantity and quality and/or be able to incorporate it into its product procurement processes without compromising quality and/or harming its cost structure.

Spectrum Brands may face excess and obsolete inventory risk related to non-compliant inventory that it may hold for which there is reduced demand, and it may need to write down the carrying value of such inventories.

Spectrum Brands may be unable to sell certain existing inventories of its batteries in Europe and other countries that have adopted similar regulations.

Many of the developing countries in which Spectrum Brands operates do not have significant governmental regulation relating to environmental safety, occupational safety, employment practices or other business matters routinely regulated in the U.S. and EU or may not rigorously enforce such regulation. As these countries and their economies develop, it is possible that new regulations or increased enforcement of existing regulations may increase the expense

of doing business in these countries. In addition, social legislation in many countries in which Spectrum Brands operates may result in significantly higher expenses associated with labor costs, terminating employees or distributors and closing manufacturing facilities. Increases in Spectrum Brands' costs as a result of increased regulation, legislation or enforcement could materially and adversely affect its business, results of operations and financial condition. Spectrum Brands may not be able to adequately establish and protect its intellectual property rights, and the infringement or loss of its intellectual property rights could harm its business.

To establish and protect its intellectual property rights, Spectrum Brands relies upon a combination of national, foreign and multi-national patent, trademark and trade secret laws, together with licenses, confidentiality agreements and other contractual

Table of Contents

arrangements. The measures that Spectrum Brands takes to protect its intellectual property rights may prove inadequate to prevent third parties from infringing or misappropriating its intellectual property. Spectrum Brands may need to resort to litigation to enforce or defend its intellectual property rights. If a competitor or collaborator files a patent application claiming technology also claimed by Spectrum Brands, or a trademark application claiming a trademark, service mark or trade dress also used by Spectrum Brands, in order to protect Spectrum Brands' rights, Spectrum Brands may have to participate in expensive and time consuming opposition or interference proceedings before the U.S. Patent and Trademark Office or a similar foreign agency. Similarly, its intellectual property rights may be challenged by third parties or invalidated through administrative process or litigation. The costs associated with protecting intellectual property rights, including litigation costs, may be material. Furthermore, even if Spectrum Brands' intellectual property rights are not directly challenged, disputes among third parties could lead to the weakening or invalidation of Spectrum Brands' intellectual property rights, or its competitors may independently develop technologies that are substantially equivalent or superior to its technology. Obtaining, protecting and defending intellectual property rights can be time consuming and expensive, and may require Spectrum Brands to incur substantial costs, including the diversion of the time and resources of management and technical personnel. Moreover, the laws of certain foreign countries in which Spectrum Brands operates or may operate in the future do not protect, and the governments of certain foreign countries do not enforce, intellectual property rights to the same extent as do the laws and government of the U.S., which may negate Spectrum Brands' competitive or technological advantages in such markets. Also, some of the technology underlying Spectrum Brands' products is the subject of nonexclusive licenses from third parties. As a result, this technology could be made available to Spectrum Brands' competitors at any time. If Spectrum Brands is unable to establish and then adequately protect its intellectual property rights, its business, financial condition and results of operations could be materially and adversely affected.

Spectrum Brands licenses various trademarks, trade names and patents from third parties for certain of its products. These licenses generally place marketing obligations on Spectrum Brands and require Spectrum Brands to pay fees and royalties based on net sales or profits. Typically, these licenses may be terminated if Spectrum Brands fails to satisfy certain minimum sales obligations or if it breaches the terms of the license. The termination of these licensing arrangements could adversely affect Spectrum Brands' business, financial condition and results of operations.

In Spectrum Brands' GBA product line, Spectrum Brands licenses the use of the Black and Decker brand for marketing in certain small household appliances in North America, South America (excluding Brazil) and the Caribbean. In July 2014, BDC extended the license agreement through December 2018. The failure to renew the license agreement with BDC or to enter into a new agreement on acceptable terms for the period following December 2018 could have a material adverse effect on Spectrum Brands' financial condition, liquidity and results of operations. Additionally, in connection with Spectrum Brands' acquisition of the HHI Business, pursuant to a transitional trademark license agreement, Stanley Black and Decker granted Spectrum Brands the right to use the "Stanley" and "Black and Decker" marks and logos, and certain other marks and logos, for up to five years after the completion of the acquisition in connection with certain products and services. When Spectrum Brands' right to use these trademarks, brand names and logos expires, Spectrum Brands may not be able to maintain or enjoy comparable name recognition or status under its new brand. If Spectrum Brands is unable to successfully manage the transition of its business to its new brand, Spectrum Brands' reputation among its customers could be adversely affected, and its revenue and profitability could decline.

Claims by third parties that Spectrum Brands is infringing their intellectual property and other litigation could adversely affect its business.

From time to time in the past Spectrum Brands has been subject to claims that it is infringing the intellectual property of others. Spectrum Brands currently is the subject of such claims and it is possible that third parties will assert infringement claims against Spectrum Brands in the future. An adverse finding against Spectrum Brands in these or similar trademark or other intellectual property litigations may have a material adverse effect on Spectrum Brands' business, financial condition and results of operations. Any such claims, with or without merit, could be time consuming and expensive, and may require Spectrum Brands to incur substantial costs, including the diversion of the resources of management and technical personnel, cause product delays or require Spectrum Brands to enter into licensing or other agreements in order to secure continued access to necessary or desirable intellectual property. If

Spectrum Brands is deemed to be infringing a third party's intellectual property and is unable to continue using that intellectual property as it had been, its business and results of operations could be harmed if it is unable to successfully develop non-infringing alternative intellectual property on a timely basis or license non-infringing alternatives or substitutes, if any exist, on commercially reasonable terms. In addition, an unfavorable ruling in intellectual property litigation could subject Spectrum Brands to significant liability, as well as require Spectrum Brands to cease developing, manufacturing or selling the affected products or using the affected processes or trademarks. Any significant restriction on Spectrum Brands' proprietary or licensed intellectual property that impedes its ability to develop and commercialize its products could have a material adverse effect on its business, financial condition and results of operations.

Table of Contents

Spectrum Brands' dependence on a few suppliers and one of its U.S. facilities for certain of its products makes it vulnerable to a disruption in the supply of its products.

Although Spectrum Brands has long-standing relationships with many of its suppliers, it generally does not have long-term contracts with them. An adverse change in any of the following could have a material adverse effect on its business, financial condition and results of operations:

- its ability to identify and develop relationships with qualified suppliers;
- the terms and conditions upon which it purchases products from its suppliers, including applicable exchange rates, transport and other costs, its suppliers' willingness to extend credit to Spectrum Brands to finance its inventory purchases and other factors beyond its control;
- the financial condition of its suppliers;
- political and economic instability in the countries in which its suppliers are located, as a result of war, terrorist attacks, pandemics, natural disasters or otherwise;
- its ability to import outsourced products;
- its suppliers' noncompliance with applicable laws, trade restrictions and tariffs; or
- its suppliers' ability to manufacture and deliver outsourced products according to its standards of quality on a timely and efficient basis.

If Spectrum Brands' relationship with one of its key suppliers is adversely affected, Spectrum Brands may not be able to quickly or effectively replace such supplier and may not be able to retrieve tooling, molds or other specialized production equipment or processes used by such supplier in the manufacture of its products. The loss of one or more of its suppliers, a material reduction in their supply of products or provision of services to Spectrum Brands or extended disruptions or interruptions in their operations could have a material adverse effect on Spectrum Brands' business, financial condition and results of operations.

Spectrum Brands manufactures the majority of its foil cutting systems for its shaving product lines, using specially designed machines and proprietary cutting technology, at its Portage, Wisconsin facility. In addition, Spectrum Brands also manufactures the majority of its residential door locks at its Subic Bay, Philippines facility. Spectrum Brands' home and garden products are mainly manufactured from its St. Louis, Missouri, facility. Damage to these facilities, or prolonged interruption in the operations of these facilities whether for repairs, as a result of labor difficulties or for other reasons, could have a material adverse effect on its ability to manufacture and sell its foil shaving, residential door locks and home and garden products, which could in turn harm its business, financial condition and results of operations.

Spectrum Brands faces risks related to its sales of products obtained from third-party suppliers.

Spectrum Brands sells a significant number of products that are manufactured by third party suppliers over which it has no direct control. While Spectrum Brands has implemented processes and procedures to try to ensure that the suppliers it uses are complying with all applicable regulations, there can be no assurances that such suppliers in all instances will comply with such processes and procedures or otherwise with applicable regulations. Noncompliance could result in Spectrum Brands' marketing and distribution of contaminated, defective or dangerous products which could subject it to liabilities and could result in the imposition by governmental authorities of procedures or penalties that could restrict or eliminate its ability to purchase products. Any or all of these effects could adversely affect Spectrum Brands' business, financial condition and results of operations.

In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act includes provisions regarding certain minerals and metals, known as conflict minerals, mined from the Democratic Republic of Congo and adjoining countries. These provisions require companies to undertake due diligence procedures and report on the use of conflict minerals in its products, including products manufactured by third parties. Compliance with these provisions will cause Spectrum Brands to incur costs to certify that its supply chain is conflict free and Spectrum Brands may face difficulties if its suppliers are unwilling or unable to verify the source of their materials. Spectrum Brands' ability to source these minerals and metals may also be adversely impacted. In addition, Spectrum Brands' customers may require that it provides them with a certification and its inability to do so may disqualify it as a supplier.

Class action and derivative action lawsuits and other investigations, regardless of their merits, could have an adverse effect on Spectrum Brands' business, financial condition and results of operations.

Spectrum Brands and certain of its officers and directors have been named in the past, and, may be named in the future, as defendants of class action and derivative action lawsuits. In the past, Spectrum Brands has also received requests for information from government authorities. Regardless of their subject matter or merits, class action lawsuits and other government investigations may result in significant cost to Spectrum Brands, which may not be covered by insurance, may divert the attention of management or may otherwise have an adverse effect on its business, financial condition and results of operations.

Table of Contents

Spectrum Brands may be exposed to significant product liability claims which its insurance may not cover and which could harm its reputation.

In the ordinary course of its business, Spectrum Brands may be named as a defendant in lawsuits involving product liability claims. In any such proceeding, plaintiffs may seek to recover large and sometimes unspecified amounts of damages and the matters may remain unresolved for several years. Any such matters could have a material adverse effect on Spectrum Brands' business, results of operations and financial condition if it is unable to successfully defend against or settle these matters or if its insurance coverage is insufficient to satisfy any judgments against it or settlements relating to these matters. Although Spectrum Brands has product liability insurance coverage and an excess umbrella policy, its insurance policies may not provide coverage for certain, or any, claims against Spectrum Brands or may not be sufficient to cover all possible liabilities. Additionally, Spectrum Brands does not maintain product recall insurance. Spectrum Brands may not be able to maintain such insurance on acceptable terms, if at all, in the future. Moreover, any adverse publicity arising from claims made against Spectrum Brands, even if the claims were not successful, could adversely affect the reputation and sales of its products. In particular, product recalls or product liability claims challenging the safety of Spectrum Brands' products may result in a decline in sales for a particular product and could damage the reputation or the value of the related brand. This could be true even if the claims themselves are ultimately settled for immaterial amounts. This type of adverse publicity could occur and product liability claims could be made in the future.

Spectrum Brands may incur material capital and other costs due to environmental liabilities.

Spectrum Brands is subject to a broad range of federal, state, local, foreign and multi-national laws and regulations relating to the environment. These include laws and regulations that govern:

- discharges to the air, water and land;
- the handling and disposal of solid and hazardous substances and wastes; and
- remediation of contamination associated with release of hazardous substances at its facilities and at off-site disposal locations.

Risk of environmental liability is inherent in Spectrum Brands' business. As a result, material environmental costs may arise in the future. In particular, Spectrum Brands may incur capital and other costs to comply with increasingly stringent environmental laws and enforcement policies, such as the EU Directives: Restriction of the Use of Hazardous Substances in Electrical and Electronic Equipment, Waste Electrical and Electronic Equipment and the Directive on Batteries and Accumulators and Waste Batteries, discussed above. Spectrum Brands' international operations may expose Spectrum Brands to risks related to compliance with the laws and regulations of foreign countries. See Part I, Item 1A. "Risk Factors-Risks Related to Spectrum Brands' Business- Spectrum Brands' international operations may expose Spectrum Brands to risks related to compliance with the laws and regulations of foreign countries" in this report.

Moreover, there are adopted and proposed international accords and treaties, as well as federal, state and local laws and regulations that would attempt to control or limit the causes of climate change, including the effect of greenhouse gas emissions on the environment. In the event that the U.S. government or foreign governments enact new climate change laws or regulations or make changes to existing laws or regulations, compliance with applicable laws or regulations may result in increased manufacturing costs for Spectrum Brands' products, such as by requiring investment in new pollution control equipment or changing the ways in which certain of its products are made. Spectrum Brands may incur some of these costs directly and others may be passed on to it from its third-party suppliers. Although Spectrum Brands believes that it is substantially in compliance with applicable environmental laws and regulations at its facilities, Spectrum Brands may not always be in compliance with such laws and regulations or any new laws and regulations in the future, which could have a material adverse effect on Spectrum Brands' business, financial condition and results of operations.

From time to time, Spectrum Brands has been required to address the effect of historic activities on the environmental condition of its properties or former properties. Spectrum Brands has not conducted invasive testing at all of its facilities to identify all potential environmental liability risks. Given the age of its facilities and the nature of its operations, material liabilities may arise in the future in connection with its current or former facilities. If previously unknown contamination of property underlying or in the vicinity of its manufacturing facilities is discovered,

Spectrum Brands could be required to incur material unforeseen expenses. If this occurs, it may have a material adverse effect on Spectrum Brands' business, financial condition and results of operations. Spectrum Brands is currently engaged in investigative or remedial projects at a few of its facilities and any liabilities arising from such investigative or remedial projects at such facilities may have a material effect on Spectrum Brands' business, financial condition and results of operations.

In addition, in connection with certain business acquisitions, Spectrum Brands has assumed, and in connection with future acquisitions may assume in the future, certain potential environmental liabilities. To the extent Spectrum Brands has not identified such environmental liabilities or to the extent the indemnifications obtained from Spectrum Brands' counterparties are insufficient to cover such environmental liabilities, these environmental liabilities could have a material adverse effect on Spectrum Brands' business.

Table of Contents

Spectrum Brands is also subject to proceedings related to its disposal of industrial and hazardous material at off-site disposal locations or similar disposals made by other parties for which it is responsible as a result of its relationship with such other parties. These proceedings are under CERCLA or similar state or foreign jurisdiction laws that hold persons who “arranged for” the disposal or treatment of such substances strictly liable for costs incurred in responding to the release or threatened release of hazardous substances from such sites, regardless of fault or the lawfulness of the original disposal. Liability under CERCLA is typically joint and several, meaning that a liable party may be responsible for all of the costs incurred in investigating and remediating contamination at a site. Spectrum Brands occasionally is identified by federal or state governmental agencies as being a potentially responsible party for response actions contemplated at an off-site facility. At the existing sites where Spectrum Brands has been notified of its status as a potentially responsible party, it is either premature to determine if Spectrum Brands’ potential liability, if any, will be material or it does not believe that its liability, if any, will be material. Spectrum Brands may be named as a potentially responsible party under CERCLA or similar state or foreign jurisdiction laws in the future for other sites not currently known to Spectrum Brands, and the costs and liabilities associated with these sites may have a material adverse effect on Spectrum Brands’ business, financial condition and results of operations.

Compliance with various public health, consumer protection and other regulations applicable to Spectrum Brands’ products and facilities could increase its cost of doing business and expose Spectrum Brands to additional requirements with which Spectrum Brands may be unable to comply.

Certain of Spectrum Brands’ products sold through, and facilities operated under, each of its business segments are regulated by the EPA the FDA or other federal consumer protection and product safety agencies and are subject to the regulations such agencies enforce, as well as by similar state, foreign and multinational agencies and regulations. For example, in the U.S., all products containing pesticides must be registered with the EPA and, in many cases, similar state and foreign agencies before they can be manufactured or sold. Spectrum Brands’ inability to obtain, or the cancellation of, any registration could have an adverse effect on its business, financial condition and results of operations. The severity of the effect would depend on which products were involved, whether another product could be substituted and whether its competitors were similarly affected. Spectrum Brands attempts to anticipate regulatory developments and maintain registrations of, and access to, substitute chemicals and other ingredients, but it may not always be able to avoid or minimize these risks.

As a distributor of consumer products in the U.S., certain of Spectrum Brands’ products are also subject to the Consumer Product Safety Act, which empowers the U.S. Consumer Product Safety Commission (the “Consumer Commission”) to exclude from the market products that are found to be unsafe or hazardous. Under certain circumstances, the Consumer Commission could require it to repair, replace or refund the purchase price of one or more of its products, or it may voluntarily do so. Any additional repurchases or recalls of Spectrum Brands’ products could be costly to Spectrum Brands and could damage the reputation or the value of its brands. If Spectrum Brands is required to remove, or Spectrum Brands voluntarily removes its products from the market, its reputation or brands could be tarnished and it may have large quantities of finished products that could not be sold. Furthermore, failure to timely notify the Consumer Commission of a potential safety hazard can result in significant fines being assessed against Spectrum Brands. Additionally, laws regulating certain consumer products exist in some states, as well as in other countries in which Spectrum Brands sells its products, and more restrictive laws and regulations may be adopted in the future.

The Food Quality Protection Act (“FQPA”) established a standard for food-use pesticides, which is that a reasonable certainty of no harm will result from the cumulative effect of pesticide exposures. Under the FQPA, the EPA is evaluating the cumulative effects from dietary and non-dietary exposures to pesticides. The pesticides in certain of Spectrum Brands’ products that are sold through the Home and Garden Business continue to be evaluated by the EPA as part of this program. It is possible that the EPA or a third party active ingredient registrant may decide that a pesticide Spectrum Brands uses in its products will be limited or made unavailable to Spectrum Brands. Spectrum Brands cannot predict the outcome or the severity of the effect of the EPA’s continuing evaluations of active ingredients used in its products.

In addition, the use of certain pesticide products that are sold through Spectrum Brands’ Home and Garden Business may, among other things, be regulated by various local, state, federal and foreign environmental and public health

agencies. These regulations may require that only certified or professional users apply the product, that users post notices on properties where products have been or will be applied or that certain ingredients may not be used. Compliance with such public health regulations could increase Spectrum Brands' cost of doing business and expose Spectrum Brands to additional requirements with which it may be unable to comply.

Any failure to comply with these laws or regulations, or the terms of applicable environmental permits, could result in Spectrum Brands incurring substantial costs, including fines, penalties and other civil and criminal sanctions or the prohibition of sales of its pest control products. Environmental law requirements, and the enforcement thereof, change frequently, have tended to become more stringent over time and could require Spectrum Brands to incur significant expenses.

Most federal, state and local authorities require certification by Underwriters Laboratory, Inc. ("UL"), an independent, not-for-profit corporation engaged in the testing of products for compliance with certain public safety standards, or other safety regulation certification prior to marketing electrical appliances. Foreign jurisdictions also have regulatory authorities overseeing the safety of consumer products. Spectrum Brands' products may not meet the specifications required by these authorities. A determination

Table of Contents

that any of its products are not in compliance with these rules and regulations could result in the imposition of fines or an award of damages to private litigants.

Spectrum Brands actual or perceived failure to adequately protect personal data could adversely affect its business, financial condition and results of operations.

A variety of state, national, foreign, and international laws and regulations apply to the collection, use, retention, protection, disclosure, transfer, and other processing of personal data. These privacy and data protection-related laws and regulations are evolving, with new or modified laws and regulations proposed and implemented frequently and existing laws and regulations subject to new or different interpretations. Compliance with these laws and regulations can be costly and can delay or impede the development of new products.

Spectrum Brands historically has relied upon adherence to the U.S. Department of Commerce's Safe Harbor Privacy Principles and compliance with the U.S.-EU Safe Harbor Framework under Directive 95/46/EC (commonly referred to as the "Data Protection Directive") agreed to by the U.S. Department of Commerce and the EU. The U.S.-EU Safe Harbor Framework, which established means for legitimizing the transfer of personal data by U.S. companies from the European Economic Area, or EEA, to the U.S., recently was invalidated by a decision of the European Court of Justice (or the "ECJ").

On July 12, 2016, the European Commission adopted the EU-U.S. Privacy Shield, which provides a framework for the transfer of personal data of EU data subjects, and on May 4, 2016, the EU General Data Protection Regulation ("GDPR"), which will replace Directive 95/46/EC, was formally published. The GDPR will go into effect on May 25, 2018 and as a regulation as opposed to a directive will be directly applicable in EU member states. Among other things, the GDPR applies to data controllers and processors outside of the EU whose processing activities relate to the offering of goods or services to, or monitoring the behavior within the EU of, EU data subjects.

In light of these developments, Spectrum Brands is reviewing its business practices and may find it necessary or desirable to make changes to our personal data handling to cause our transfer and receipt of EEA residents' personal data to be legitimized under applicable European law. The regulation of data privacy in the EU continues to evolve, and it is not possible to predict the ultimate content, and therefore the effect, of data protection regulation over time. Spectrum Brands' actual or alleged failure to comply with applicable laws and regulations, or to protect personal data, could result in enforcement actions and significant penalties against Spectrum Brands, which could result in negative publicity, increase Spectrum Brands' operating costs, subject Spectrum Brands to claims or other remedies and have a material adverse effect on Spectrum Brands' business, financial condition, and results of operations.

Public perceptions that some of the products Spectrum Brands produces and markets are not safe could adversely affect Spectrum Brands.

On occasion, Spectrum Brands' customers have alleged that some products failed to perform up to expectations or have caused damage or injury to individuals or property. Public perception that any of its products are not safe, whether justified or not, could impair Spectrum Brands' reputation, damage its brand names and have a material adverse effect on its business, financial condition and results of operations. In addition, Spectrum Brands relies on certain third party trademarks, brand names and logos which it does not have exclusive use of. Public perception that any such third party trademarks, brand names and logos used by Spectrum Brands are not safe, whether justified or not, could have a material adverse effect on Spectrum Brands' business, financial condition and results of operations. If Spectrum Brands is unable to negotiate satisfactory terms to continue existing or enter into additional collective bargaining agreements, Spectrum Brands may experience an increased risk of labor disruptions and its results of operations and financial condition may suffer.

Approximately 14% of Spectrum Brands' total labor force is covered by collective bargaining agreements. There are 4 collective bargaining agreements that will expire during Fiscal 2016, which cover approximately 38% of the labor force under collective bargaining agreements, or approximately 5% of Spectrum Brands' total labor force. While Spectrum Brands currently expects to negotiate continuations to the terms of these agreements, there can be no assurances that it will be able to obtain terms that are satisfactory to it or otherwise to reach agreement at all with the applicable parties. In addition, in the course of its business, Spectrum Brands may also become subject to additional collective bargaining agreements. These agreements may be on terms that are less favorable than those under its current collective bargaining agreements. Spectrum Brands' increased exposure to collective bargaining agreements,

whether on terms more or less favorable than its existing collective bargaining agreements, could adversely affect the operation of Spectrum Brands' business, including through increased labor expenses. While Spectrum Brands intends to comply with all collective bargaining agreements to which it is subject, there can be no assurances that Spectrum Brands will be able to do so and any noncompliance could subject it to disruptions in its operations and materially and adversely affect its results of operations and financial condition.

Significant changes in actual investment return on pension assets, discount rates and other factors could affect Spectrum Brands' results of operations, equity and pension contributions in future periods.

Spectrum Brands' results of operations may be positively or negatively affected by the amount of income or expense it records for its defined benefit pension plans. U.S. GAAP requires that Spectrum Brands calculate income or expense for the plans using

Table of Contents

actuarial valuations. These valuations reflect assumptions about financial markets and other economic conditions, which may change based on changes in key economic indicators. The most significant assumptions Spectrum Brands uses to estimate pension income or expense are the discount rate and the expected long-term rate of return on plan assets. In addition, Spectrum Brands is required to make an annual measurement of plan assets and liabilities, which may result in a significant change to equity. Although pension expense and pension funding contributions are not directly related, key economic factors that affect pension expense would also likely affect the amount of cash Spectrum Brands would contribute to pension plans as required under ERISA.

If Spectrum Brands' goodwill, indefinite-lived intangible assets or other long-term assets become impaired, Spectrum Brands will be required to record additional impairment charges, which may be significant.

A significant portion of Spectrum Brands' long-term assets consist of goodwill, other indefinite-lived intangible assets and finite-lived intangible assets recorded as a result of past acquisitions as well as through fresh start reporting.

Spectrum Brands does not amortize goodwill and indefinite-lived intangible assets, but rather reviews them for impairment on a periodic basis or whenever events or changes in circumstances indicate that their carrying value may not be recoverable. Spectrum Brands considers whether circumstances or conditions exist which suggest that the carrying value of its goodwill and other long-lived intangible assets might be impaired. If such circumstances or conditions exist, further steps are required in order to determine whether the carrying value of each of the individual assets exceeds its fair value. If analysis indicates that an individual asset's carrying value does exceed its fair value, the next step is to record a loss equal to the excess of the individual asset's carrying value over its fair value.

The steps required by U.S. GAAP entail significant amounts of judgment and subjectivity. Events and changes in circumstances that may indicate that there may be an impairment and which may indicate that interim impairment testing is necessary include, but are not limited to: strategic decisions to exit a business or dispose of an asset made in response to changes in economic, political and competitive conditions; the impact of the economic environment on the customer base and on broad market conditions that drive valuation considerations by market participants; Spectrum Brands' internal expectations with regard to future revenue growth and the assumptions Spectrum Brands makes when performing impairment reviews; a significant decrease in the market price of Spectrum Brands' assets; a significant adverse change in the extent or manner in which Spectrum Brands' assets are used; a significant adverse change in legal factors or the business climate that could affect Spectrum Brands' assets; an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset; and significant changes in the cash flows associated with an asset. As a result of such circumstances, Spectrum Brands may be required to record a significant charge to earnings in its financial statements during the period in which any impairment of its goodwill, indefinite-lived intangible assets or other long-term assets is determined. Any such impairment charges could have a material adverse effect on Spectrum Brands' business, financial condition and operating results.

If Spectrum Brands is unable to protect the confidentiality of its proprietary information and know-how, the value of Spectrum Brands' technology, products and services could be harmed significantly.

Spectrum Brands relies on trade secrets, know-how and other proprietary information in operating its business. If this information is not adequately protected, then it may be disclosed or used in an unauthorized manner. To the extent that consultants, key employees or other third parties apply technological information independently developed by them or by others to its proposed products, disputes may arise as to the proprietary rights to such information, which may not be resolved in Spectrum Brands' favor. The risk that other parties may breach confidentiality agreements or that Spectrum Brands' trade secrets become known or independently discovered by competitors, could harm Spectrum Brands by enabling its competitors, who may have greater experience and financial resources, to copy or use Spectrum Brands' trade secrets and other proprietary information in the advancement of their products, methods or technologies. The disclosure of Spectrum Brands' trade secrets would impair its competitive position, thereby weakening demand for its products or services and harming Spectrum Brands' ability to maintain or increase its customer base.

Disruption or failures of Spectrum Brands' information technology systems could have a material adverse effect on its business.

Spectrum Brands' information technology systems are susceptible to security breaches, operational data loss, general disruptions in functionality, and may not be compatible with new technology. Spectrum Brands depends on its

information technology systems for the effectiveness of its operations and to interface with its customers, as well as to maintain financial records and accuracy. Disruption or failures of Spectrum Brands' information technology systems could impair its ability to effectively and timely provide its services and products and maintain its financial records, which could damage its reputation and have a material adverse effect on Spectrum Brands' business.

Spectrum Brands' acquisition and expansion strategy may not be successful.

Spectrum Brands' growth strategy is based in part on growth through acquisitions, which poses a number of risks. Spectrum Brands may not be successful in identifying appropriate acquisition candidates, consummating acquisitions on satisfactory terms or integrating any newly acquired or expanded business with its current operations. Spectrum Brands may issue additional equity, incur long-term or short-term indebtedness, spend cash or use a combination of these for all or part of the consideration paid in

Table of Contents

future acquisitions or expansion of its operations. The execution of Spectrum Brands' acquisition and expansion strategy could entail repositioning or similar actions that in turn require Spectrum Brands to record impairments, restructuring and other charges. Any such charges would reduce Spectrum Brands' earnings. Spectrum Brands cannot guarantee that any future business acquisitions will be pursued or that any acquisitions that are pursued will be consummated.

Significant costs have been incurred and are expected to be incurred in connection with the consummation of recent and future business acquisitions and the integration of such acquired businesses with Spectrum Brands into a combined company, including legal, accounting, financial advisory and other costs.

Spectrum Brands expects to incur one-time costs in connection with integrating Spectrum Brands' operations, products and personnel and those of the businesses Spectrum Brands acquires into a combined company, in addition to costs related directly to completing such acquisitions. Spectrum Brands would expect similar costs to be incurred with any future acquisition. These costs may include expenditures for:

- employee redeployment, relocation or severance;
- integration of operations and information systems;
- combination of research and development teams and processes; and
- reorganization or closures of facilities.

In addition, Spectrum Brands expects to incur a number of non-recurring costs associated with combining its operations with those of acquired businesses. Additional unanticipated costs may yet be incurred as Spectrum Brands integrates its business with acquired businesses. Although Spectrum Brands expects that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of its operations with those of acquired businesses, may offset incremental transaction and transaction-related costs over time, this net benefit may not be achieved in the near term. Additionally, while Spectrum Brands expects to benefit from leveraging distribution channels and brand names among Spectrum Brands and its acquired businesses, Spectrum Brands cannot assure you that it will achieve such benefits.

Spectrum Brands may not realize the anticipated benefits of, and synergies from, its business acquisitions and may become responsible for certain liabilities and integration costs as a result.

Business acquisitions involve the integration of new businesses that have previously operated independently from Spectrum Brands. The integration of Spectrum Brands' operations with those of acquired businesses is frequently expected to result in financial and operational benefits, including increased top line growth, margins, revenues and cost savings and be accretive to earnings per share, earnings before interest, taxes, depreciation and amortization and free cash flow before synergies. There can be no assurance, however, regarding when or the extent to which Spectrum Brands will be able to realize these increased top line growth, margins, revenues, cost savings or accretions to earnings per share, earnings before interest, taxes, depreciation and amortization or free cash flow or other benefits. Integration may also be difficult, unpredictable, and subject to delay because of possible company culture conflicts and different opinions on technical decisions and product roadmaps. Spectrum Brands will often be required to integrate or, in some cases, replace, numerous systems, including those involving management information, purchasing, accounting and finance, sales, billing, employee benefits, payroll and regulatory compliance, many of which may be dissimilar. In some instances, Spectrum Brands and certain acquired businesses have served the same customers, and some customers may decide that it is desirable to have additional or different suppliers. Difficulties associated with the integration of acquired businesses could have a material adverse effect on Spectrum Brands' business.

Spectrum Brands may also acquire partial or full ownership in businesses or may acquire rights to market and distribute particular products or lines of products. The acquisition of a business or the rights to market specific products or use specific product names may involve a financial commitment by Spectrum Brands, either in the form of cash or equity consideration. In the case of a new license, such commitments are usually in the form of prepaid royalties and future minimum royalty payments. There is no guarantee that Spectrum Brands will acquire businesses or product distribution rights that will contribute positively to its earnings. Anticipated synergies may not materialize, cost savings may be less than expected, sales of products may not meet expectations and acquired businesses may carry unexpected liabilities.

In addition, in connection with business acquisitions, Spectrum Brands has assumed, and may assume in connection with future acquisitions, certain potential liabilities. To the extent such liabilities are not identified by Spectrum Brands or to the extent the indemnifications obtained from third parties are insufficient to cover such liabilities, these liabilities could have a material adverse effect on Spectrum Brands' business.

Integrating Spectrum Brands' business with acquired businesses may divert its management's attention away from operations.

Successful integration of acquired businesses' operations, products and personnel with Spectrum Brands may place a significant burden on its management and other internal resources. The diversion of management's attention, and any difficulties encountered in the transition and integration process, could harm its business, financial condition and operating results.

Table of Contents

As a result of business acquisitions, Spectrum Brands may not be able to retain key personnel or recruit additional qualified personnel, which could materially affect Spectrum Brands' business and require Spectrum Brands to incur substantial additional costs to recruit replacement personnel.

Spectrum Brands is highly dependent on the continuing efforts of its senior management team and other key personnel. As a result of business acquisitions, Spectrum Brands' current and prospective employees could experience uncertainty about their future roles. This uncertainty may adversely affect Spectrum Brands' ability to attract and retain key management, sales, marketing and technical personnel. Any failure to attract and retain key personnel could have a material adverse effect on Spectrum Brands' business. In addition, Spectrum Brands currently does not maintain "key person" insurance covering any member of its management team.

If any of Spectrum Brands' key personnel or those of Spectrum Brands' acquired businesses were to join a competitor or form a competing company, existing and potential customers or suppliers could choose to form business relationships with that competitor instead of Spectrum Brands. There can be no assurance that confidentiality, non-solicitation, non-competition or similar agreements signed by former directors, officers, employees or stockholders of Spectrum Brands, Spectrum Brands' acquired businesses or its transactional counterparties will be effective in preventing a loss of business.

General customer uncertainty related to Spectrum Brands' business acquisitions could harm Spectrum Brands. Spectrum Brands' customers may, in response to the announcement or consummation of a business acquisition, delay or defer purchasing decisions. If Spectrum Brands' customers delay or defer purchasing decisions, its revenues could materially decline or any anticipated increases in revenue could be lower than expected.

A change in governmental regulations regarding the use of refrigerant gas R-134a or its potential future substitutes could have a material adverse effect on Spectrum Brands' ability to sell its aftermarket A/C products.

The refrigerant R-134a is critical component of Spectrum Brands' aftermarket A/C products and is used in products which comprised approximately 34% of GAC's net sales, or approximately 3% of Spectrum Brands' net sales, in Fiscal 2016. Older generation refrigerants such as R-12 (Freon) have been regulated for some time in the United States and elsewhere, due to concerns about their potential to contribute to ozone depletion. In recent years, refrigerants such as R-134a, which is an approved substitute for R-12, have also become the subject of regulatory focus due to their potential to contribute to global warming.

The European Union has passed regulations that require the phase out of R-134a in automotive cooling systems in new vehicles by 2017. In the United States, Spectrum Brands has reported that it cannot predict what future action, if any, the EPA will take on the regulation of R-134a. But based on currently available information, it believes that it would take some time for suitable alternatives to R-134a to come into full scale commercial production and therefore such alternatives would not be readily available for wide spread use in new car models. If the future use of R-134a is phased out or is limited or prohibited in jurisdictions in which Spectrum Brands does business, the future market for GAC's products containing R-134a may be limited, which could have a material adverse impact on Spectrum Brands' results of operations, financial condition, and cash flows.

In addition, regulations may be enacted governing the packaging, use and disposal of Spectrum Brands' products containing refrigerants. For example, regulations are currently in effect in California that govern the sale and distribution of products containing R-134a. While Spectrum Brands has reported that it is not aware of any noncompliance with such regulations, its failure to comply with these or possible future regulations in California, or elsewhere, could result in material fines or costs or the inability to sell its products in those markets, which could have a material adverse impact on Spectrum Brands' results of operations, financial condition and cash flows. If substitutes for R-134a become widely used in A/C systems and their use for DIY and retrofit purposes are not approved by the EPA, it could have a material adverse effect on Spectrum Brands' results of operations, financial condition, and cash flows. In addition, the cost of HFO-1234yf, the leading long-term alternative to R-134a being proposed in the United States and the European Union for use in the A/C systems of new vehicles, will likely be higher than that of R-134a. If HFO-1234yf becomes widely used and Spectrum Brands is able to develop products using HFO-1234yf, but is unable to price its products to reflect the increased cost of HFO-1234yf, it could have a material adverse effect on Spectrum Brands' results of operations, financial condition and cash flow.

All of Spectrum Brands' GAC refrigerant products are produced at one facility, and a significant disruption or disaster at such a facility could have a material adverse effect on its results of operations.

GAC's manufacturing facility consists of one site which is located in Garland, Texas and thus GAC is dependent upon the continued safe operation of this facility. Its facility is subject to various hazards associated with the manufacturing, handling, storage, and transportation of chemical materials and products, including human error, leaks and ruptures, explosions, floods, fires, inclement weather and natural disasters, power loss or other infrastructure failures, mechanical failure, unscheduled downtime, regulatory requirements, the loss of certifications, technical difficulties, labor disputes, inability to obtain material, equipment or transportation, environmental hazards such as remediation, chemical spills, discharges or releases of toxic or hazardous substances or gases, and other risks. Many of these hazards could cause personal injury and loss of life, severe damage to, or destruction of, property and equipment and environmental contamination. In addition, the occurrence of material operation problems at GAC's facility due to any of these hazards could cause a disruption in the production of its products. GAC may also encounter difficulties or interruption as a result of the application of enhanced manufacturing technologies or changes to

Table of Contents

production lines to improve GAC's throughput or to upgrade or repair its production lines. Spectrum Brands' insurance policies have coverage in case of significant damage to its manufacturing facility but may not fully compensate GAC for the cost of replacement for any such damage and any loss from business interruption. As a result, GAC may not be adequately insured to cover losses resulting from significant damage to its manufacturing facility. Any damage to its facility or interruption in manufacturing could result in production delays and delays in meeting contractual obligations which could have a material adverse effect on Spectrum Brands' relationship with its customers and on its results of operations, financial condition or cash flows in any given period.

Risks Related to FGL's and Front Street's Businesses

The FGL Merger is subject to various closing conditions, including regulatory approvals, no assurance can be provided that such conditions will be satisfied and when, or if, the closing of the FGL Merger will occur

The completion of the FGL Merger is subject to various closing conditions, including, but not limited to, (1) the information statement to be filed by FGL with the SEC in connection with the FGL Merger shall have been cleared by the SEC and shall have been sent to stockholders of FGL (in accordance with Regulation 14C under the Exchange Act at least 20 days prior to the closing), (2) the absence of any law or order enacted, issued or enforced that is in effect and that makes the consummation of the FGL Merger illegal, prevents, prohibits, restrains or enjoins the consummation of the FGL Merger and (3) obtaining the requisite approvals from the IID, NYDFS, Vermont Department of Financial Regulation, China Insurance Regulatory Commission and the Committee on Foreign Investment in the United States. The FGL Merger Agreement was recently amended to extend the outside termination date for the completion of the FGL Merger to February 8, 2017. A number of the closing conditions are outside of FGL's control and it cannot predict with certainty whether all of the required closing conditions will be satisfied or waived or if other uncertainties may arise. In addition, regulators could impose additional requirements or obligations as conditions for their approvals, which may be burdensome. No assurance can be provided that the various closing conditions will be satisfied, the necessary waivers or approvals will be obtained in a timely fashion or at all, in which case the FGL Merger could be prevented or delayed. In addition, no assurance can be provided that FGL will not lose the benefit of previously satisfied closing conditions and waivers or approvals, in which case FGL may be required to again seek to satisfy closing conditions and waivers or approvals, which it may not be able to obtain in a timely fashion or at all, in which case the FGL Merger could be prevented or delayed. For further information regarding these approvals, please see Part I, Item 1. "Business-Our Operating Subsidiaries-FGL."

Failure to timely complete the FGL Merger could adversely impact FGL's stock price, business, financial condition and results of operations

A failure to complete the FGL Merger on a timely basis or at all, none of which can be assured, could result in negative publicity and cause the price of FGL's common stock to decline, in particular because FGL's current stock price reflects a market assumption that the FGL Merger will occur. As a result of the pending FGL Merger, trading in FGL's stock has increased substantially. If the FGL Merger is not consummated or the timing thereof is further delayed, the investment goals of FGL's stockholders may be materially different than those of FGL's stockholders on a pre-Merger announcement basis. In addition, FGL will remain liable for significant transaction costs that will be payable even if the FGL Merger is not completed and could also be required to pay a termination fee to Anbang in certain specific circumstances.

The FGL Merger and operating restrictions contained in the FGL Merger Agreement could adversely affect FGL's business and operations

The FGL Merger and certain interim operating covenants in the FGL Merger Agreement that govern the conduct of FGL's business during the pendency of the FGL Merger could cause disruptions to FGL's business and business relationships, which could have an adverse impact on FGL's results of operations, liquidity and financial condition. For example, FGL may be limited or restricted from taking certain actions, the attention of FGL's management may be directed to Merger-related considerations, FGL's current and prospective employees may experience uncertainty about their future roles with FGL, which may adversely affect FGL's ability to retain and hire key personnel, and parties with which FGL has business relationships, including customers, potential customers and distributors, may experience uncertainty as to the future of such relationships and seek alternative relationships or seek to alter their present business relationships with FGL in a manner that negatively impacts FGL.

Shareholder litigation against FGL, its directors and/or Anbang could delay or prevent the FGL Merger and cause FGL to incur significant costs and expenses

Transactions such as the FGL Merger are often subject to lawsuits by shareholders. Conditions to the closing of the FGL Merger require that no law or order must have been enacted, issued or enforced and in effect, that would make the consummation of the FGL Merger illegal, prevent, prohibit, restrain or enjoin the consummation of the FGL Merger. FGL cannot provide assurance as to the outcome of any potential lawsuits, including the costs associated with defending the claims or any other liabilities that may be incurred in connection with the litigation or settlement of lawsuits.

Table of Contents

FGL's subsidiaries may not be able to generate sufficient cash to service all of their obligations and may be forced to take other actions to satisfy their obligations, which may not be successful.

FGL's subsidiaries' ability to make scheduled payments on or to refinance their debt obligations, including the FGH Senior Notes, depends on their financial condition and operating performance, which in turn are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond their control. FGL's subsidiaries may not be able to maintain a level of cash flows from operating activities sufficient to permit them to pay the principal, premium, if any, and interest on indebtedness.

If FGL's subsidiaries' cash flows and capital resources are insufficient to fund its subsidiaries' obligations, FGL could face substantial liquidity problems and may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance indebtedness. FGL's ability to restructure or refinance its subsidiaries' debt will depend on the condition of the capital markets and its financial condition at such time. Any refinancing of FGL's subsidiaries' debt could be at higher interest rates and may require compliance with more onerous covenants, which could further restrict its business operations. The terms of existing and future debt instruments may restrict FGL from adopting some of these alternatives. In addition, any failure to make payments on outstanding obligations on a timely basis would likely result in a reduction of FGL's ratings, which could harm FGL's ability to conduct its business and to incur additional indebtedness. In the face of such substantial liquidity problems, FGL may be required to dispose of material assets or operations to meet its obligations. FGL may not be able to consummate those dispositions and these proceeds may not be adequate to meet any obligations then due.

FGL is a holding company with no operations of its own; its ability to pay dividends on its stock will depend on the ability of its subsidiaries to pay dividends to FGL, which may be restricted by law. Front Street is a parent company with limited business operations of its own and conducts most of its business operations through its subsidiaries and its primary source of cash is and will be distributions from its subsidiaries.

FGL is a holding company with limited business operations of its own. Its primary subsidiaries are insurance subsidiaries that own substantially all of its assets and conduct substantially all of its operations. Accordingly, FGL's payment of dividends is dependent, to a significant extent, on the generation of cash flow by its subsidiaries and their ability to make such cash available to FGL, by dividend or otherwise. FGL's subsidiaries may not be able to, or may not be permitted to, make distributions to enable FGL to meet its obligations and pay dividends. Each subsidiary is a distinct legal entity and legal and contractual restrictions may also limit FGL's ability to obtain cash from its subsidiaries.

FGL's insurance subsidiaries are subject to various statutory and regulatory restrictions and the ability of its insurance subsidiaries to pay dividends is limited by applicable insurance laws and regulations. See Part I, Item 1A. "Business-Our Operating Subsidiaries-FGL-Regulation-Dividend and Other Distribution Payment Limitations". The Iowa insurance law and the New York insurance law regulate the amount of dividends that may be paid in any year by FGL Insurance and FGL NY Insurance, respectively. This could limit both FGL's ability to receive cash flow from its direct wholly owned subsidiary, FGH and FGH's ability to receive cash flow from its direct wholly owned subsidiary, FGL Insurance, and FGL Insurance's ability to receive cash flow from its direct wholly owned subsidiary, FGL NY Insurance.

Each year FGL Insurance may pay a certain limited amount of ordinary dividends or other distributions without being required to obtain the prior consent of the Iowa Commissioner. FGL Insurance is required to provide advance written notice to the Iowa Commissioner of its intention to pay dividends that are deemed ordinary dividends and to request approval to pay dividends that are deemed extraordinary dividends. Pursuant to Iowa insurance law, ordinary dividends are payments, together with all other such payments within the preceding twelve months, that do not exceed the greater of (i) 10% of FGL Insurance's statutory surplus as regards policyholders as of December 31 of the preceding year; or (ii) the net gain from operations of FGL Insurance (excluding realized capital gains) for the 12-month period ending December 31 of the preceding year. Dividends may only be paid out of statutory earned surplus.

Dividends in excess of FGL Insurance's ordinary dividend capacity are referred to as extraordinary and require prior approval of the Iowa Commissioner. In deciding whether to approve a request to pay an extraordinary dividend, Iowa insurance law requires the Iowa Commissioner to consider the effect of the dividend payment on FGL Insurance's

surplus and financial condition generally and whether the payment of the dividend will cause FGL Insurance to fail to meet its required RBC ratio. In addition, Delaware law may impose requirements that may restrict FGL's ability to pay dividends to holders of FGL's common stock. FGL Insurance has not paid out extraordinary dividends since 2008, and in the future FGL Insurance may be required to request approval to pay an extraordinary dividend and there is no guarantee such a request would be approved by the Iowa Commissioner.

It is possible that in the future, FGL's insurance subsidiaries may be unable to pay dividends or distributions to FGL in an amount sufficient to meet its obligations or to pay dividends due to a lack of sufficient statutory net gain from operations, a diminishing statutory policyholders surplus, changes to the Iowa or New York insurance laws or regulations or for some other reason. Further, the covenants in the agreement governing the existing indebtedness of FGL significantly restrict its ability to pay dividends, which further limits FGL's ability to obtain cash or other assets from FGL's subsidiaries. If FGL's subsidiaries cannot pay sufficient dividends or distributions to FGL in the future, FGL would be unable to meet its obligations or to pay dividends. This would negatively affect FGL's business and financial condition as well as the trading price of FGL's common stock.

Table of Contents

Front Street is a parent company with limited business operations of its own and conducts most of its business operations through its subsidiaries and its primary source of cash is and will be distributions from its subsidiaries. Front Street's subsidiaries have limited operations and might not generate sufficient earnings and cash flow to pay dividends or distributions in the future.

FGL's businesses are highly regulated and subject to numerous legal restrictions and regulations.

State Regulation

FGL's business is subject to government regulation in each of the states in which they conduct business. Such regulation is vested in state agencies having broad administrative and discretionary, authority with respect to many aspects of FGL's business which may include, among other things, premium rates and increases thereto, underwriting practices, reserve requirements, marketing practices, advertising, privacy, policy forms, reinsurance reserve requirements, acquisitions, mergers and capital adequacy, and is concerned primarily with the protection of policyholders and other customers rather than shareholders. At any given time, FGL and its insurance subsidiaries may be the subject of a number of ongoing financial or market conduct examinations, audits or inquiries. From time to time, regulators raise issues during such examinations or audits that could, if determined adversely, have a material impact on FGL's business.

FGL has received inquiries from a number of state regulatory authorities regarding its use of the U.S. Social Security Administration's Death Master File ("Death Master File") and compliance with state claims practices regulations and unclaimed property or escheatment laws. The NYDFS issued a letter and subsequent regulation requiring life insurers doing business in New York to use the Death Master File or similar databases to determine if benefits were payable under life insurance policies, annuities and retained asset accounts. Other states have enacted laws which will impose requirements on insurers to periodically compare their in-force life insurance policies and annuities against the Death Master File or similar databases, investigate any identified potential matches to confirm the death of the insured and determine whether benefits are due and attempt to locate the beneficiaries of any benefits that are due or, if no beneficiary can be located, escheat the benefit to the state as unclaimed property. FGL has received notice of escheatment audits from several states. FGL has filed suit in federal and state court to challenge the audit policies of the California controller and the applicability of California's unclaimed property laws to FGL generally. It is possible that these requirements will result in additional payments to beneficiaries, additional escheatment of funds deemed abandoned under state laws or administrative penalties and expenses. While FGL believes that it has established sufficient reserves with respect to these matters, it is possible that third parties could dispute these amounts and additional payments or additional unreported claims or liabilities could be required or identified given the ongoing regulatory developments, the effects of which could be significant and could have a material adverse effect on FGL's results of operations in any one period.

State insurance departments conduct periodic examinations of the books and records, financial reporting, policy and rate filings, market conduct and business practices of insurance companies domiciled in their states, generally once every three to five years. The regulator in FGL Insurance's previous state of domicile, the MIA, completed a routine financial examination of FGL Insurance for the three-year period ended December 31, 2012. The NYDFS completed a routine financial examination of FGL NY Insurance for the three-year periods ended December 31, 2009 and is completing December 31, 2012, and the Vermont Department of Financial Regulation completed a routine financial examination of Raven Re for the period from April 7, 2011 (commencement of business) through December 31, 2012. FGL Insurance is currently the subject of seven ongoing market conduct examinations or inquiries in various states. While FGL Insurance does not believe that any of the current market conduct examinations it is subject to will result in any fines or remediation orders that will be material to its business, market conduct examinations can result in monetary fines or remediation and generally require FGL Insurance to devote significant resources to the management of such examinations. As a result of its re-domestication to Iowa, FGL Insurance became subject to financial and market conduct examinations by the IID, the primary regulatory authority for Iowa domestic life insurance companies.

NAIC

Although FGL's business is subject to regulation in each state in which FGL conducts business, in many instances the state regulatory models emanate from the NAIC. State insurance regulators and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and

regulations, or interpretations thereof, are often made for the benefit of the consumer and at the expense of the insurer and, thus, could have a material adverse effect on FGL's business, operations and financial condition. FGL is also subject to the risk that compliance with any particular regulator's interpretation of a legal or accounting issue may not result in compliance with another regulator's interpretation of the same issue, particularly when compliance is judged in hindsight. Under insurance guaranty fund laws in most states, insurance companies doing business therein can be assessed up to prescribed limits for policyholder losses incurred by insolvent companies. FGL cannot predict the amount or timing of any such future assessments. There is an additional risk that any particular regulator's interpretation of a legal or accounting issue may change over time to FGL's detriment, or that changes to the overall legal or market environment, even absent any change of interpretation by a particular regulator, may cause FGL to change its views regarding the actions FGL needs to take from a legal risk management perspective, which could necessitate changes to FGL's practices that may, in some cases, limit its ability to grow and improve profitability. Some of the NAIC pronouncements, particularly as they affect accounting issues, take effect automatically in the various states without affirmative action by the states. Statutes, regulations and interpretations may be applied with retroactive impact,

Table of Contents

particularly in areas such as accounting and reserve requirements. Also, regulatory actions with prospective impact can potentially have a significant impact on currently sold products. The NAIC continues to work to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves. On June 10, 2016, the NAIC formally approved principle-based reserving for life insurance products with secondary guarantees, with an effective date of January 1, 2017. Additionally, various statutory accounting guidance is being evaluated, including investment value of insurance subsidiaries.

Federal Regulation

In April 2016, the Department of Labor (“DOL”) released its final “fiduciary” rule which could have a material impact on FGL, its products, distribution, and business model. The final rule treats persons who provide investment advice for a fee or other compensation with respect to assets of an employer plan or individual retirement account (“IRA”) as fiduciaries of that plan or IRA. Significantly, the rule expands the definition of fiduciary to apply to persons, including insurance agents, who advise and sell products to IRA owners. As a practical matter, this means commissioned insurance agents selling FGL’s IRA products must qualify for a prohibited transaction exemption, which requires the agent and financial institution to meet various conditions including that an annuity sale be in the “best interest” of the client without regard for the agent’s, financial institution’s or other party’s financial or other interests, and that any compensation paid to the agent and financial institution be reasonable. The final rule is effective June 2016 and generally applicable in April 2017. The rule has generated considerable controversy and is the subject of industry efforts to block implementation both in Congress and through court actions. The success or failure of these efforts cannot be predicted. Assuming the rule is not blocked, the precise impact of the rule on the financial services industry more generally, and the impact on FGL and its business in particular, is difficult to assess because the rule is new and still being studied. While FGL continues to analyze the regulation, FGL believes it could have an adverse effect on sales of FGL’s annuity products to IRA owners particularly in the independent agent distribution channel. A significant portion of FGL’s annuity sales are to IRAs. Compliance with the prohibited transaction exemptions would likely require additional supervision of agents, cause changes to compensation practices and product offerings, and increase litigation risk, all of which could adversely impact FGL’s business, results of operations and/or financial condition.

Other Regulation

Other types of regulation that could affect FGL or Front Street include insurance company investment laws and regulations, state adopted statutory accounting principles, antitrust laws, minimum solvency requirements, federal privacy laws, insurable interest laws and federal anti-money laundering and anti-terrorism laws. Compliance with applicable laws and regulations is time-consuming and personnel-intensive, and changes in laws and regulations may materially increase the cost of compliance and other expenses of doing business. There are a number of risks that may arise where applicable regulations may be unclear, subject to multiple interpretations or under development or where regulations may conflict with one another, where regulators revise their previous guidance or courts overturn previous rulings, which could result in FGL’s or Front Street’s failure to meet applicable standards. Regulators and other authorities have the power to bring administrative or judicial proceedings against FGL and Front Street, which could result, among other things, in suspension or revocation of FGL’s or Front Street’s licenses, cease and desist orders, fines, civil penalties, criminal penalties or other disciplinary action, which could materially harm FGL’s or Front Street’s results of operations and financial condition. If FGL or Front Street fail to address, or appear to fail to address, appropriately any of these matters, FGL’s or Front Street’s reputation could be harmed and FGL or Front Street could be subject to additional legal risk, which could increase the size and number of claims and damages asserted against them or subject them to enforcement actions, fines and penalties. See Part I, Item I, “Business-Our Operating Subsidiaries-FGL-Regulation” for further discussion of the impact of regulations on FGL’s and Front Street’s business.

FGL and Front Street cannot predict what form any future changes in these or other areas of regulation affecting the insurance and reinsurance industry might take or what effect, if any, such proposals might have on FGL or Front Street if enacted into law. In addition, because FGL’s and Front Street’s activities are relatively concentrated in a small number of lines of business, any change in law or regulation affecting one of those lines of business could have a disproportionate impact on FGL or Front Street as compared to other more diversified insurance companies.

FGL's and Front Street's results of operations and financial condition depend on the accuracy of a broad range of assumptions and estimates made by their respective management teams.

FGL and Front Street make certain assumptions and estimates regarding mortality, persistency, expenses, interest rates, tax liability, business mix, frequency of claims, contingent liabilities, investment performance and other factors related to their businesses and anticipated results. FGL and Front Street rely on these assumptions and estimates to determine the amounts of deferred acquisition cost ("DAC") and value of business acquired ("VOBA") policy liabilities and accruals, future earnings and various components of their consolidated balance sheets. These assumptions are also used in making decisions crucial to the operation of their business, including the pricing of products and expense structures related to products. The calculations FGL and Front Street use to estimate various components of their balance sheets and consolidated statements of operations are necessarily complex and involve analyzing and interpreting large quantities of data. The assumptions and estimates required for these calculations involve judgment and by their nature are imprecise and subject to changes and revisions over time. These assumptions and estimates incorporate many factors, none of which can be predicted with certainty. To the extent their actual

Table of Contents

experience and changes in estimates differ from original estimates and assumptions, FGL's and Front Street's businesses, Consolidated Statements of Operations and financial condition may be materially adversely affected. Accordingly, their results may be adversely affected by changes resulting from implementing more sophisticated administrative systems and procedures that facilitate the calculation of more precise estimates.

FGL has minimal experience to date on policyholder behavior for its GMWB products which it began issuing in 2008; as a result, future experience could lead to significant changes in their assumptions. If emerging experience deviates from FGL's assumptions on GMWB utilization, it could have a significant effect on FGL's reserve levels and related results of operations. See Part I, Item I. "Business-Our Operating Subsidiaries-FGL-Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies and Estimates."

FGL's or Front Street's financial condition and results of operations could be adversely impacted if their assumptions regarding the fair value and future performance of their investments differ from actual experience.

FGL and Front Street make assumptions regarding the fair value and expected future performance of their investments. It is possible that actual values will differ from their assumptions. Such events could result in a material change in the value of their investments, business, operations and financial condition.

For example, expectations that FGL's investments in RMBS and CMBS will continue to perform in accordance with their contractual terms are based on assumptions a market participant would use in determining the current fair value and considering the performance of the underlying assets. FGL has non-agency RMBS holdings of \$1.4 billion as of September 30, 2016. It is possible that the collateral underlying these investments will not meet performance expectations and the lower performance levels may lead to adverse changes in the cash flows on FGL's holdings of these types of securities. This could lead to potential future other-than-temporary impairments ("OTTI") within FGL's portfolio of RMBS, CMBS, and ABS. In addition, expectations that FGL's investments in corporate securities or debt obligations will continue to perform in accordance with their contractual terms are based on evidence gathered through FGL's normal credit surveillance process. It is possible that issuers of corporate securities in which FGL has invested will perform worse than current expectations. Such events may lead FGL to recognize potential future OTTI within its portfolio of corporate securities. FGL recorded OTTI charges of approximately \$43.9 million and \$81.4 million for Fiscal 2016 and Fiscal 2015, respectively, inclusive of OTTI on investments in affiliates. It is also possible that unanticipated events would lead FGL to dispose of certain of those holdings and recognize the effects of any market movements in FGL's financial statements.

For Fiscal 2016, 2015 and 2014, Front Street recognized other-than-temporary credit impairment losses in operations totaling \$7.4 million, \$2.3 million and \$3.0 million, respectively, related to funds withheld receivables with an amortized cost of \$15.5 million, \$4.8 million and \$13.1 million and a fair value of \$8.1 million, \$2.5 million and \$10.1 million at September 30, 2016, 2015 and 2014, respectively.

A financial strength ratings downgrade, potential downgrade, or any other negative action by a rating agency, could make FGL's product offerings less attractive and increase its cost of capital, and thereby could adversely affect FGL's financial condition and results of operations.

Various nationally recognized rating agencies review the financial performance and condition of insurers, including FGL's insurance subsidiaries, and publish their financial strength ratings as indicators of an insurer's ability to meet policyholder and contractholder obligations. These ratings are important to maintaining public confidence in FGL's products, its ability to market its products and its competitive position. Any downgrade or other negative action by a rating agency with respect to the financial strength ratings of FGL's insurance subsidiaries could have a materially adverse effect on FGL in many ways, including the following:

- adversely affecting relationships with distributors, IMOs and sales agents, which could result in reduction of sales;
- increasing the number or amount of policy lapses or surrenders and withdrawals of funds;
- requiring a reduction in prices for FGL's insurance products and services in order to remain competitive;
- adversely affecting FGL's ability to obtain reinsurance at a reasonable price, on reasonable terms or at all; and
- requiring FGL to collateralize reserves, balances or obligations under reinsurance and derivatives agreements.

Rating agencies assign ratings based upon several factors. While most of these factors relate to the rated company, some factors relate to the views of the rating agency, general economic conditions and circumstances outside the rated company's control. In addition, rating agencies use various models and formulas to assess the strength of a rated

company, and from time to time rating agencies have, in their discretion, altered the models and may do so in the future in ways that negatively impact the financial strength ratings of FGL's insurance subsidiaries and make it more difficult to maintain or obtain comparable ratings going forward. As rating agencies continue to evaluate the financial services industry, it is possible that rating agencies will heighten the level of scrutiny that they apply to financial institutions, increase the frequency and scope of their credit reviews, request additional information from the companies that they rate and potentially adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels. It is possible that the outcome of any such review of FGL would have additional adverse ratings consequences, which could have a material adverse effect on FGL's results of

Table of Contents

operations, financial condition and liquidity. FGL may need to take actions in response to changing standards or capital requirements set by any of the rating agencies which could cause FGL's business and operations to suffer. If the financial strength ratings of FGL's insurance subsidiaries are downgraded, FGL anticipates that its sales of new policies will be adversely impacted and that FGL could experience substantial surrenders of existing policies. In order to improve or maintain their financial strength ratings, FGL's insurance subsidiaries may limit the amount of dividends that they would otherwise pay to FGL. In that regard, FGL may, among other things, implement business strategies to improve the RBC ratio of FGL's insurance subsidiaries to a level anticipated by the rating agencies to maintain or improve FGL's current rating. If FGL is unable to achieve this level, FGL may limit dividend payments from FGL Insurance to the extent necessary. FGL cannot guarantee these measures will be successful, and if FGL Insurance fails to maintain such a target RBC ratio, its financial strength rating could suffer. FGL cannot predict what actions rating agencies may take in the future, and failure to improve or maintain current financial strength ratings could adversely affect FGL's financial condition and results of operations.

Following the announcement of the proposed FGL Merger, the rating organizations have undertaken a review of FGL's debt ratings and FGL's insurance company subsidiaries' financial strength ratings. The rating organizations may take various actions, positive or negative, and their actions may not be known until the FGL Merger closes.

FGH is required to maintain minimum ratings as a matter of routine practice under FGH's over-the-counter derivative agreements on forms promulgated by ISDA. Under some ISDA agreements, FGH has agreed to maintain certain financial strength ratings. A downgrade below these levels provides the counterparty under the agreement the right to terminate the open derivative contracts between the parties, at which time any amounts payable by FGH or the counterparty would be dependent on the market value of the underlying derivative contracts. FGH's current rating allows multiple counterparties the right to terminate ISDA agreements. As of September 30, 2016, the amount at risk for ISDA agreements which could be terminated based upon FGH's current ratings was \$275.2 million, which equals the fair value to FGH of the open over-the-counter call option positions. The fair value of the call options can never decrease below zero. No ISDA agreements have been terminated, although the counterparties have reserved the right to terminate the ISDA agreements at any time. In certain transactions, FGH and the counterparty have entered into a collateral support agreement requiring either party to post collateral when the net exposures exceed predetermined thresholds. These thresholds vary by counterparty and credit rating. As of September 30, 2016 and 2015, \$127.8 million and \$7.0 million, respectively, of collateral was posted by FGH's counterparties. Accordingly, the maximum amount of loss due to credit risk that FGH were to incur if parties to the call options failed completely to perform according to the terms of the contracts was \$147.4 million and \$73.7 million at September 30, 2016 and 2015, respectively.

Additionally, under certain insurance reserve financing arrangements, if FGH were to take certain actions without the counterparties consent, and such actions resulted in a specified financial strength ratings downgrade, FGH would be in default. See Part II, Item 7A. "Quantitative and Qualitative Disclosures about Market Risk-Credit Risk and Counterparty Risk-FGL."

The amount of regulatory capital that FGL's and Front Street's insurance subsidiaries have and the amount of statutory capital that they must hold to maintain their financial strength ratings and meet other requirements can vary significantly from time to time due to a number of factors outside of their control.

FGL's insurance subsidiaries are subject to regulations that provide minimum capitalization requirements based on RBC formulas for life insurance and reinsurance companies that establish capital requirements relating to insurance, business, asset, interest rate, and certain other risks.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors, most of which are outside of FGL's control, including, but not limited to, the following:

- the amount of statutory income or losses generated by their insurance subsidiaries (which itself is sensitive to equity market and credit market conditions);
- the amount of additional capital their insurance subsidiaries must hold to support business growth;
- changes in reserve requirements applicable to their insurance subsidiaries;
- their ability to access capital markets to provide reserve relief;

- changes in equity market levels;
- the value of certain fixed-income and equity securities in their investment portfolios;
- changes in the credit ratings of investments held in their portfolios;
- the value of certain derivative instruments;
- changes in interest rates;
- credit market volatility;
- changes in consumer behavior; and
- changes to the RBC formulas and interpretation of the NAIC instructions with respect to RBC calculation methodologies.

The financial strength ratings of FGL's insurance subsidiaries are significantly influenced by their statutory surplus amounts and capital adequacy ratios. Rating agencies may also implement changes to their internal models, which differ from the RBC capital model, that have the effect of increasing or decreasing the amount of statutory capital FGL's insurance subsidiaries must

Table of Contents

hold in order to maintain their current ratings. In addition, rating agencies may downgrade the investments held in FGL's portfolio, which could result in a reduction of FGL's capital and surplus and its RBC ratio.

In extreme equity market declines, the amount of additional statutory reserves, FGL's insurance subsidiaries are required to hold for fixed indexed products may decrease at a rate less than the rate of change of the market value of the invested assets. This mismatch could result in a reduction of the capital, surplus or RBC ratio of FGL's insurance subsidiaries. To the extent that an insurance subsidiary's RBC ratios are deemed to be insufficient, FGL may seek to take actions either to increase the capitalization of the insurer or to reduce the capitalization requirements. If FGL is unable to accomplish such actions, the rating agencies may view this as a reason for a ratings downgrade.

While the amount of statutory reserves is not directly affected by changes in interest rates, additional statutory reserves may be required as the result of an asset adequacy analysis, and this analysis of cash flow testing is altered by rising or falling interest rates and widening credit spreads.

The failure of any of FGL's insurance subsidiaries to meet its applicable RBC requirements or minimum capital and surplus requirements could subject it to further examination or corrective action imposed by insurance regulators, including limitations on its ability to write additional business, supervision by regulators or seizure or liquidation. Any corrective action imposed could have a material adverse effect on FGL's business, results of operations and financial condition. A decline in RBC ratios also limits the ability of an insurance subsidiary to make dividends or distributions to FGL and could be a factor in causing rating agencies to downgrade the insurer's financial strength ratings, which could have a material adverse effect on FGL's business, results of operations and financial condition.

Financial services companies are frequently the targets of litigation, including class action litigation, which could result in substantial judgments.

FGL and Front Street, like other financial services companies, are involved in litigation and arbitration in the ordinary course of business. Although FGL and Front Street do not believe that the outcome of any such litigation or arbitration will have a material adverse effect on their financial condition, it is possible that their results of operations and cash flows could be materially affected by an unfavorable outcome. More generally, FGL and Front Street operate in industries in which various practices are subject to scrutiny and potential litigation, including class actions. In addition, FGL sells its products through IMOs, whose activities may be difficult to monitor. Civil jury verdicts have been returned against insurers and other financial services companies involving sales, underwriting practices, product design, product disclosure, administration, denial or delay of benefits, charging excessive or impermissible fees, recommending unsuitable products to customers, breaching fiduciary or other duties to customers, refund or claims practices, alleged agent misconduct, failure to properly supervise representatives, relationships with agents or other persons with whom the insurer does business, payment of sales or other contingent commissions and other matters. Such lawsuits can result in substantial judgments that are disproportionate to the actual damages, including material amounts of punitive non-economic compensatory damages. In some states, juries, judges and arbitrators have substantial discretion in awarding punitive and non-economic compensatory damages, which creates the potential for unpredictable material adverse judgments or awards in any given lawsuit or arbitration. Arbitration awards are subject to very limited appellate review. In addition, in some class action and other lawsuits, financial services companies have made material settlement payments.

FGL's reinsurers, including Wilton Re and Front Street Cayman, could fail to meet assumed obligations, increase their rates, or become subject to adverse developments that could materially adversely affect FGL's business, financial condition and results of operations.

FGL's insurance subsidiaries cede material amounts of insurance and transfer related assets and certain liabilities to other insurance companies through reinsurance. For example, a material amount of reinsured liabilities are concentrated with Wilton Re and Front Street Cayman. As of September 30, 2016, the amount recoverable from Wilton Re and Front Street Cayman was \$1,523.3 million and \$1,119.5 million, respectively. Given FGL's significant concentration of reinsurance with Wilton Re, if Wilton Re fails to perform its obligations under the various reinsurance treaties, such failure could have a material impact on FGL's financial position. See Part I, Item 1. "Business-Our Operating Subsidiaries-FGL-Reinsurance-Wilton Re Transaction". However, notwithstanding the transfer of related assets and certain liabilities, FGL remains liable with respect to ceded insurance should any reinsurer fail to meet the obligations assumed. Accordingly, FGL bears credit risk with respect to its reinsurers. The

failure, insolvency, inability or unwillingness of any reinsurer to pay under the terms of reinsurance agreements with FGL could materially adversely affect FGL's business, financial condition and results of operations. To mitigate the counterparty risk for the Front Street Cayman transaction, the assets are held on FGL Insurance's balance sheet and are used as collateral in the event of a failure. For Wilton Re, A+ rated from Fitch, FGL monitors the credit rating. During 2014 Wilton Re announced their purchase by Canadian Pension Plan Investment Board, ("CCIB"), an AAA rated organization. With the capital resources of CCIB behind Wilton Re, FGL believes the counterparty risk is low. See Part I, Item 1A. "Business-Our Operating Subsidiaries-FGL-Reinsurance-Wilton Re Transaction".

FGL's ability to compete is dependent on the availability of reinsurance or other substitute financing solutions, both of which could involve the use of reinsurance affiliates referred to generally as "captives". Premium rates charged by FGL are based, in part, on the assumption that reinsurance will be available at a certain cost. Under certain reinsurance agreements, the reinsurer may increase the rate it charges FGL for the reinsurance. Therefore, if the cost of reinsurance were to increase, if reinsurance

Table of Contents

were to become unavailable on commercially reasonable terms or at all, if alternatives to reinsurance were not available to FGL, if the use of captives were materially restricted through regulation, including certain general proposals currently under consideration by the NAIC, FGL's business, financial condition and results of operations could be materially adversely affected.

The credit for reinsurance taken by FGL's insurance subsidiaries under offshore reinsurance agreements is, under certain conditions, dependent upon the offshore reinsurers ability to obtain and provide sufficient qualifying assets in a qualifying trust or qualifying letters of credit issued by qualifying lending banks. The cost of letters of credit, when available, continues to be very expensive in the current economic environment. Loss of reserve credit by an insurance subsidiary would require it to establish additional reserves and would result in a decrease in the level of its capital, which could have a material adverse effect on FGL's profitability, results of operations and financial condition.

In recent years, access to reinsurance has become more costly for members of the insurance industry, including FGL. In addition, the number of life reinsurers has decreased as the reinsurance industry has consolidated. The decreased number of participants in the life reinsurance market resulted in increased concentration of risk for insurers, including FGL. If the reinsurance market further contracts, FGL's ability to continue to offer FGL's products on terms favorable to it could be negatively impacted, resulting in adverse consequences to FGL's business, operations and financial condition.

In addition, reinsurers are facing many challenges regarding illiquid credit or capital markets, investment downgrades, rating agency downgrades, deterioration of general economic conditions and other factors negatively impacting the financial services industry generally. If such events cause a reinsurer to fail to meet its obligations, FGL's business, financial condition and results of operations could be materially adversely affected.

Restrictions on FGL's ability to use captive reinsurers could adversely impact its competitive position and results of operations.

The NAIC and state insurance regulators continue to review life insurance companies' use of affiliated captive reinsurers or off-shore entities. On June 4, 2014, Rector & Associates, a consulting firm commissioned by the NAIC, presented a revised report (the "Rector Report") to the Principle-Based Reserving Implementation Task Force of the NAIC which proposes a new regulatory framework for captives assuming term life insurance ("XXX") or universal life insurance with secondary guarantees ("AXXX") business, and recommends, among other things, placing limitations on the types of assets that may be used to finance reserves associated with XXX and AXXX business and making an individual state's adoption of the new regulations contemplated by the report an NAIC accreditation standard. On August 17, 2014, the NAIC Executive (EX) Committee adopted the regulatory framework proposed by the Rector Report, including recommendations to have various NAIC technical subgroups propose regulations and guidelines to implement the new framework. These technical working groups are in various stages of developing and proposing regulations and guidelines. On October 9, 2014, the NAIC's Principle-Based Reserving Implementation Task Force voted to expose for comment a new Actuarial Guideline (AG48) designed to implement many of the recommendations in the Rector Report related to the amount of assets that may be supported by different asset classes in connection with certain transactions involving captive reinsurance companies.

If state insurance regulators restrict the use of captive reinsurers or if FGL otherwise is unable to continue to use captive reinsurers in the future, FGL's ability to write certain products, to manage the associated risks and to deploy capital efficiently, could be adversely affected, or FGL may need to increase prices on those products, which could adversely impact its competitive position and its results of operations.

Interest rate fluctuations and withdrawal demands in excess of FGL's and Front Street's assumptions could negatively affect their business, financial condition and results of operations.

FGL and Front Street offer certain products that allow policyholders to withdraw their funds under defined circumstances. In order to meet such funding obligations, FGL and Front Street manage their liabilities and configure their investment portfolios so as to provide and maintain sufficient liquidity to support expected withdrawal demands and contract benefits and maturities. However, in order to provide necessary long-term returns, a certain portion of FGL's and Front Street's assets are relatively illiquid. There can be no assurance that withdrawal demands will match FGL's and Front Street's estimation of withdrawal demands. As interest rates increase, FGL and Front Street are exposed to the risk of financial disintermediation through a potential increase in the number of withdrawals.

Disintermediation risk refers to the risk that policyholders may surrender their contracts in a rising interest rate environment, requiring FGL and Front Street to liquidate assets in an unrealized loss position. If FGL and Front Street experience unexpected withdrawal activity, whether as a result of interest rate movements financial strength downgrades or otherwise, it could exhaust its liquid assets and be forced to liquidate other less liquid assets, possibly at a loss or on other unfavorable terms, which could have a material adverse effect on FGL's and Front Street's business, financial condition and results of operations. Additionally, FGL and Front Street may experience spread compression, and a loss of anticipated earnings, if credited interest rates are increased on renewing contracts in an effort to decrease or manage withdrawal activity.

Interest rates are subject to volatility and fluctuations. For the past several years, interest rates have trended downwards to historically low levels. In order to meet its policy and contractual obligations, FGL and Front Street must earn a sufficient return on its invested assets. A prolonged period of historically low rates or significant changes in interest rates could expose FGL and Front Street to the risk of not achieving sufficient return on its invested assets by not achieving anticipated interest earnings, or of not earning anticipated spreads between the interest rate earned on investments and the credited interest rates paid on outstanding policies and contracts. Additionally, a prolonged period of low interest rates in the future may lengthen liability

Table of Contents

maturity, thus increasing the need for a re-investment of assets at yields that are below the amounts required to support guarantee features of FGL's and Front Street's contracts. Both rising and declining interest rates can negatively affect FGL's and Front Street's interest earnings and spread income (the difference between the returns FGL and Front Street earn on their investments and the amounts they must credit to policyholders and contractholders). While FGL and Front Street develop and maintain asset liability management ("ALM") programs and procedures designed to mitigate the effect on interest earnings and spread income in rising or falling interest rate environments, no assurance can be given that changes in interest rates will not materially adversely affect FGL's or Front Street's businesses, financial conditions and results of operations.

FGL's expectation for future interest earnings and spread income is an important component in amortization of DAC and VOBA and significantly lower interest earnings or spreads may cause FGL to accelerate amortization, thereby reducing net income in the affected reporting period. An extended period of declining interest rates or a prolonged period of low interest rates may also cause FGL or Front Street to change their long-term view of the interest rates that they can earn on their investments. Such a change in FGL's or Front Street's view would cause them to change the long-term interest rate that they assume in their calculation of insurance assets and liabilities under U.S. GAAP. This revision would result in increased reserves and other unfavorable consequences. In addition, while the amount of statutory reserves is not directly affected by changes in interest rates, additional statutory reserves may be required as the result of an asset adequacy analysis, which is altered by rising or falling interest rates and widening credit spreads. Additionally, FGL's and Front Street's ALM programs and procedures incorporate assumptions about the relationship between short-term and long-term interest rates and relationships between risk-adjusted and risk-free interest rates, market liquidity and other factors. The effectiveness of FGL's and Front Street's ALM programs and procedures may be negatively affected whenever actual results differ from these assumptions.

Changes in interest rates may also affect the attractiveness of certain of FGL's products. For example, lower interest rates may result in decreased sales of certain of FGL's insurance and investment products. However, during periods of declining interest rates, certain life insurance and annuity products may be relatively more attractive investments to consumers, resulting in increased premium payments on products with flexible premium features, repayment of policy loans and increased persistency or a higher percentage of insurance policies remaining in force from year to year during a period when FGL's investments carry lower returns. As a result, FGL could become unable to earn its desired level of spread income.

During periods of increasing market interest rates, FGL may offer higher crediting rates on interest-sensitive products, such as universal life insurance and fixed annuities, and FGL may increase crediting rates on in-force products to keep these products competitive. Increases in crediting rates, as well as surrenders and withdrawals, could have a material adverse effect on FGL's business, financial condition and results of operations. In addition, if long-term interest rates rise dramatically within a six- to twelve-month time period, certain of FGL's products may be exposed to disintermediation risk. Higher interest rates may increase the cost of debt and other obligations having floating rate or rate reset provisions and may result in lower sales of other products. A rise in interest rates, in the absence of other countervailing changes, will increase the gross unrealized loss position of FGL's investment portfolio which will decrease FGL's accumulated other comprehensive income and shareholders' equity. FGL's gross unrealized loss on FGL's available for sale ("AFS") portfolio was \$268.2 million as of September 30, 2016 compared to \$498.4 million as of September 30, 2015.

FGL's and Front Street's investments are subject to market and credit risks. These risks could be heightened during periods of extreme volatility or disruption in financial and credit markets.

FGL's and Front Street's invested assets and derivative financial instruments are subject to risks of credit defaults and changes in market values. Periods of extreme volatility or disruption in the financial and credit markets could increase these risks. Underlying factors relating to volatility affecting the financial and credit markets could have a material adverse impact on FGL's and Front Street's results of operations or financial condition.

The value of FGL's and Front Street's mortgage-backed investments depends in part on the financial condition of the borrowers and tenants for the properties underlying those investments, as well as general and specific economic trends affecting the overall default rate. FGL and Front Street are also subject to the risk that cash flows resulting from the payments on pools of mortgages that serve as collateral underlying the mortgage-backed securities FGL and Front

Street own may differ from their expectations in timing or size. Cash flow variability arising from an unexpected acceleration in mortgage prepayment behavior can be significant, and could cause a decline in the estimated fair value of certain “interest-only” securities within FGL’s and Front Street’s mortgage-backed securities portfolio. Any event reducing the estimated fair value of these securities, other than on a temporary basis, could have an adverse effect on FGL’s and Front Street’s business, results of operations and financial condition.

Significant continued financial and credit market volatility, changes in interest rates, credit spreads, credit defaults, real estate values, market illiquidity, declines in equity prices, acts of corporate malfeasance, ratings downgrades of the issuers or guarantors of these investments and declines in general economic conditions, either alone or in combination, could have a material adverse impact on FGL’s or Front Street’s results of operations, financial condition or cash flows through realized losses, OTTI, changes in unrealized loss positions and increased demands on capital. As of September 30, 2016 and 2015, FGL had gross unrealized losses on its AFS portfolio of \$268.2 million and \$498.4 million, respectively. In addition, FGL’s investment portfolio is concentrated in certain industries. As of September 30, 2016 and 2015, FGL’s most significant investment in one industry was

Table of Contents

its investment securities in the banking industry with a fair value of \$2,447.9 million and \$1,979.1 million, or 11.6% and 10.4%, respectively, of the invested assets portfolio. FGL's holdings in this industry include investments in 97 and 83 different issuers as of September 30, 2016 and 2015, respectively, with the top ten investments accounting for 33.6% and 39.0% of the total holdings in this industry as of September 30, 2016 and 2015, respectively.

As of September 30, 2016 and 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 September 30, 2016 and 2015, the carrying value of the fixed maturity securities in the financial sector was \$232.8 million, or 14.1%, and \$269.7 million, or 15.8%, respectively, of Front Street's funds withheld receivables. At September 30, 2016 and 2015, the holdings in this sector included investments in 81 and 107 different issuers, respectively, with the top ten investments accounting for 48.0% and 41.0%, respectively, of the total holdings in this sector. As of September 30, 2016 and 2015, the carrying value of the fixed maturity securities in the energy, mining and metals industries was \$188.6 million, or 11.4%, and \$236.6 million, or 13.8%, respectively, of Front Street's funds withheld receivables. At September 30, 2016 and 2015, the holdings in these industries included investments in 74 and 98 different issuers, respectively, with the top ten investments accounting for 43.4% and 39.7%, respectively, of the total holdings in these industries.

In addition, market volatility can make it difficult for FGL and Front Street to value certain of their assets, especially if trading becomes less frequent. Valuations may include assumptions or estimates that may have significant period-to-period changes that could have an adverse impact on FGL's and Front Street's results of operations or financial condition.

FGL is exposed to credit loss in the event of non-performance by its counterparties on call options. FGL seeks to reduce the risk associated with such agreements by purchasing such options from large, well-established financial institutions, but there can be no assurance that FGL will not suffer losses in the event of counterparty non-performance. As of September 30, 2016 and 2015, \$127.8 million and \$7.0 million, respectively, of collateral was posted by FGL's counterparties. 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 \$147.4 million and \$73.7 million at September 30, 2016 and 2015, respectively. See "Note 5. Derivative Financial Instruments" to FGL's audited consolidated financial statements for further discussion of credit risk.

Equity market volatility could negatively impact FGL's or Front Street's business.

Equity market volatility can negatively affect FGL's or Front Street's revenues and profitability in various ways, particularly as a result of guaranteed minimum withdrawal or surrender benefits in their products. The estimated cost of providing GMWB incorporates various assumptions about the overall performance of equity markets over certain time periods. Periods of significant and sustained downturns in equity markets or increased equity volatility could result in an increase in the valuation of the future policy benefit or policyholder account balance liabilities associated with such products, resulting in a reduction in FGL's or Front Street's revenues and net income. The rate of amortization of DAC and VOBA costs relating to FIA products and the cost of providing guaranteed minimum withdrawal or surrender benefits could also increase if equity market performance is worse than assumed, hence materially and adversely impacting FGL's or Front Street's results of operations and financial condition.

Credit market volatility or disruption could adversely impact FGL's or Front Street's financial condition or results of operations.

Significant volatility or disruption in credit markets could have a material adverse effect on FGL's or Front Street's business, financial condition and results of operations. Changes in interest rates and credit spreads could cause market price and cash flow variability in the fixed income instruments in FGL's and Front Street's investment portfolios. Significant volatility and lack of liquidity in the credit markets could cause issuers of the fixed-income securities in FGL's or Front Street's investment portfolio to default on either principal or interest payments on these securities. Additionally, market price valuations may not accurately reflect the underlying expected cash flows of securities within FGL's or Front Street's investment portfolio.

Changes in federal or state tax laws may affect sales of FGL's products and profitability.

The annuity and life insurance products that FGL markets generally provide the policyholder with certain federal income or state tax advantages. For example, federal income taxation on any increases in non-qualified annuity

contract values (i.e., the “inside build-up”) is deferred until it is received by the policyholder. Non-qualified annuities are annuities that are not sold to a qualified retirement plan. With other savings investments, such as certificates of deposit and taxable bonds, the increase in value is generally taxed each year as it is realized. Additionally, life insurance death benefits are generally exempt from income tax.

From time to time, various tax law changes have been proposed that could have an adverse effect on FGL’s business, including the elimination of all or a portion of the income tax advantages described above for annuities and life insurance. Additionally, insurance products, including the tax favorable features of these products, generally must be approved by the insurance regulators in each state in which they are sold. This review could delay the introduction of new products or impact the features that provide for tax advantages and make such products less attractive to potential purchasers. If legislation were enacted to eliminate the tax deferral for annuities, such a change would have a material adverse effect on FGL’s ability to sell non-qualified annuities.

Table of Contents

FGL and Front Street may be required to increase their valuation allowance against their deferred tax assets, and may face restrictions on FGL's and Front Street's ability to fully utilize such assets which could materially adversely affect FGL's and Front Street's capital position, business, operations and financial condition.

Deferred tax assets refer to assets that are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets in essence represent future savings of taxes that would otherwise be paid in cash. The realization of the deferred tax assets is dependent upon the generation of sufficient future taxable income, including capital gains. If it is determined that the deferred tax assets cannot be realized, a deferred tax valuation allowance must be established, with a corresponding charge to net income. Based on FGL's and Front Street's current assessment of future taxable income, including available tax planning opportunities, FGL and Front Street anticipate that it is more likely than not that FGL and Front Street will generate sufficient taxable income to realize all of their deferred tax assets as to which FGL and Front Street do not have a valuation allowance. If future events differ from FGL's and Front Street's current forecasts, the valuation allowance may need to be increased from the current amount, which could have a material adverse effect on FGL's and Front Street's capital position, business, operations and financial condition.

FGL's and Front Street's business models depend on the performance of various third parties, including independent distributors, underwriters, actuarial consultants and other service providers.

FGL and Front Street rely significantly on various third parties to provide services for their business operations. As such, their results may be affected by the performance of those other parties. For example, FGL is dependent upon independent distribution channels to sell its products, third parties to perform policy administration and underwriting functions, and independent consultants to perform actuarial analyses and asset managers to manage certain of FGL's assets. Additionally, FGL's and Front Street's operations are dependent on various service providers and on various technologies, some of which are provided or maintained by certain key outsourcing partners and other parties.

Many of FGL's products and services are complex and are sold through third-party intermediaries. In particular, FGL's insurance businesses are reliant on these intermediaries to describe and explain their products to potential customers. The intentional or unintentional misrepresentation of FGL's products and services in advertising materials or other external communications, or inappropriate activities by FGL's personnel or an intermediary, could adversely affect FGL's reputation and business prospects, as well as lead to potential regulatory actions or litigation.

The third parties upon which FGL and Front Street depend may default on their obligations to FGL or Front Street due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud, loss of key personnel, or other reasons. Such defaults could have a material adverse effect on FGL's or Front Street's financial condition and results of operations. In addition, certain of these other parties may act, or be deemed to act, on behalf of FGL or represent FGL in various capacities. Consequently, FGL may be held responsible for obligations that arise from the acts or omissions of these other parties.

Interruption or other operational failures in telecommunication, information technology and other operational systems, or a failure to maintain the security, integrity, confidentiality or privacy of sensitive data residing on such systems, including as a result of human error, could harm FGL's or Front Street's business.

FGL and Front Street are highly dependent on automated and information technology systems to record and process their internal transactions and transactions involving their customers, as well as to calculate reserves, value-invested assets and complete certain other components of their U.S. GAAP and statutory financial statements. FGL or Front Street could experience a failure of one of these systems, their employees or agents could fail to monitor and implement enhancements or other modifications to a system in a timely and effective manner, or their employees or agents could fail to complete all necessary data reconciliation or other conversion controls when implementing a new software system or implementing modifications to an existing system. Despite the implementation of security and back-up measures, FGL's and Front Street's information technology systems may be vulnerable to physical or electronic intrusions, viruses or other attacks, programming errors and similar disruptions. FGL or Front Street may also be subject to disruptions of any of these systems arising from events that are wholly or partially beyond their control (for example, natural disasters, acts of terrorism, epidemics, computer viruses and electrical/telecommunications outages). All of these risks are also applicable where FGL and Front Street rely on outside vendors, including Dell, to provide services to FGL and Front Street, to provide services to them and their

customers. The failure of any one of these systems for any reason, or errors made by FGL's or Front Street's employees or agents, could in each case cause significant interruptions to their respective operations, which could harm their reputations, adversely affect their internal controls over financial reporting, or have a material adverse effect on FGL's or Front Street's business, results of operations and financial condition.

FGL retains confidential information in its information technology systems and those of its business partners, and it relies on industry standard commercial technologies to maintain the security of those systems. Despite its implementation of network security measures, FGL's servers could be subject to physical and electronic break-ins, and similar disruptions from unauthorized tampering with their computer systems. While FGL performs annual penetration tests and has adopted a number of measures to protect the security of customer and company data and have not experienced a successful cyberattack, there is no guaranty that such an attack will not occur or be successful in the future. Anyone who is able to circumvent FGL's security measures and

Table of Contents

penetrate its information technology systems could access, view, misappropriate, alter, or delete information in the systems, including personally identifiable customer information and proprietary business information. Information security risks also exist with respect to the use of portable electronic devices, such as laptops, which are particularly vulnerable to loss and theft. In addition, an increasing number of jurisdictions require that customers be notified if a security breach results in the disclosure of personally identifiable customer information. Any compromise of the security of FGL's information technology systems that results in inappropriate access, use or disclosure of personally identifiable customer information could damage FGL's reputation in the marketplace, deter purchases of its products, subject FGL to heightened regulatory scrutiny or significant civil and criminal liability and require FGL to incur significant technical, legal and other expenses.

In the event of a disaster such as a natural catastrophe, an industrial accident, a blackout, a computer virus, a terrorist attack or war, FGL's or Front Street's information technology systems may be inaccessible to their employees, customers, or business partners for an extended period of time. Even if FGL's or Front Street's employees are able to report to work, they may be unable to perform their duties for an extended period of time if their data or systems are disabled or destroyed. Any such occurrence could materially adversely affect FGL's or Front Street's business, operations and financial condition.

FGL's and Front Street's insurance subsidiaries' ability to grow depends in large part upon the continued availability of capital.

FGL's and Front Street's insurance subsidiaries' long-term strategic capital requirements will depend on many factors, including their accumulated statutory earnings and the relationship between their statutory capital and surplus and various elements of required capital. To support their long-term capital requirements, FGL, Front Street and their insurance subsidiaries may need to increase or maintain their statutory capital and surplus through financings, which could include debt, equity, financing arrangements or other surplus relief transactions. Adverse market conditions have affected and continue to affect the availability and cost of capital from external sources. Neither FGL nor Front Street are obligated, and they may choose not or may be unable, to provide financing or make any capital contribution to their insurance subsidiaries. Consequently, financings, if available at all, may be available only on terms that are not favorable to FGL or Front Street or their insurance subsidiaries. If FGL's or Front Street's insurance subsidiaries cannot maintain adequate capital, they may be required to limit growth in sales of new policies, or reinsurance treaties (each as applicable), and such action could materially adversely affect FGL's or Front Street's business, operations and financial condition.

Accounting rules, changes to accounting rules, or the grant of permitted accounting practices to competitors could negatively impact FGL and Front Street.

FGL and Front Street are required to comply with U.S. GAAP. A number of organizations are instrumental in the development and interpretation of U.S. GAAP, such as the SEC, the FASB and the American Institute of Certified Public Accountants. U.S. GAAP is subject to constant review by these organizations and others in an effort to address emerging accounting rules and issue interpretative accounting guidance on a continual basis. FGL nor Front Street cannot assure you that future changes to U.S. GAAP will not have a negative impact on FGL or Front Street. U.S. GAAP includes the requirement to carry certain assets and liabilities at fair value. These fair values are sensitive to various factors including, but not limited to, interest rate movements, credit spreads, and various other factors. Because of this, changes in these fair values may cause increased levels of volatility in FGL's and Front Street's consolidated financial statements.

In addition, FGL's insurance subsidiaries are required to comply with statutory accounting principles ("SAP"). SAP and in particular actuarial reserving methodology are subject to constant review by the NAIC and its task forces and committees as well as state insurance departments in an effort to address emerging issues and otherwise improve financial reporting. Various proposals are currently, or have previously been, pending before committees and task forces of the NAIC, some of which, if enacted, would negatively affect FGL's insurance subsidiaries. The NAIC is also currently working to reform state regulation in various areas, including comprehensive reforms relating to life insurance reserves and the accounting for such reserves. FGL cannot predict whether or in what form reforms will be enacted and, if so, whether the enacted reforms will positively or negatively affect FGL. In addition, the NAIC Accounting Practices and Procedures manual provides that state insurance departments may permit insurance

companies domiciled therein to depart from SAP by granting them permitted accounting practices. FGL cannot predict whether or when the insurance departments of the states of domicile of its competitors may permit them to utilize advantageous accounting practices that depart from SAP, the use of which is not permitted by the insurance departments of the states of domicile of FGL and its insurance subsidiaries. With respect to regulations and guidelines, states sometimes defer to the interpretation of the insurance department of the state of domicile. Neither the action of the domiciliary state nor action of the NAIC is binding on a state. Accordingly, a state could choose to follow a different interpretation. FGL can give no assurance that future changes to SAP or components of SAP or the grant of permitted accounting practices to its competitors will not have a negative impact on FGL.

Table of Contents

FGL's and Front Street's risk management policies and procedures could leave them exposed to unidentified or unanticipated risks, which could negatively affect their businesses or result in losses.

FGL and Front Street have developed risk management policies and procedures and expect to continue to enhance these in the future. Nonetheless, their policies and procedures to identify, monitor, and manage both internal and external risks may not effectively mitigate these risks or predict future exposures, which could be different or significantly greater than expected. These identified risks may not be the only risks facing FGL or Front Street. Additional risks and uncertainties not currently known to FGL or Front Street, or that either of them currently deem to be immaterial, may adversely affect their business, financial condition or operating results. For example, FGL hedges its FIA index credits with a combination of static and dynamic strategies, which can result in earnings volatility. In addition, 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 may not be able to protect its intellectual property and may be subject to infringement claims.

FGL relies on a combination of contractual rights and copyright, trademark and trade secret laws to establish and protect its intellectual property. Although FGL uses a broad range of measures to protect its intellectual property rights, third parties may infringe or misappropriate its intellectual property. FGL may have to litigate to enforce and protect its copyrights, trademarks, trade secrets and know-how or to determine their scope, validity or enforceability, which represents a diversion of resources that may be significant in amount and may not prove successful. The loss of intellectual property protection or the inability to secure or enforce the protection of FGL's intellectual property assets could adversely impact its business and its ability to compete effectively.

FGL also may be subject to costly litigation in the event that another party alleges its operations or activities infringe upon that party's intellectual property rights. FGL may also be subject to claims by third parties for breach of copyright, trademark, trade secret or license usage rights. Any such claims and any resulting litigation could result in significant expense and liability for damages or FGL could be enjoined from providing certain products or services to its customers or utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses, or alternatively, FGL could be required to enter into costly licensing arrangements with third parties, all of which could have a material adverse effect on FGL's business, results of operations and financial condition.

FGL's and Front Street's business could be interrupted or compromised if they experience difficulties arising from outsourcing relationships.

In addition to services provided by third-party asset managers and actuarial consultants, FGL outsources the following functions to third-party service providers, and expect to continue to do so in the future: (i) new business administration, (ii) hosting of financial systems, (iii) servicing of existing policies, (iv) information technology development and maintenance, (v) call centers and (vi) underwriting administration of life insurance applications.

Front Street is also reliant on a variety of third party services in conducting its operations. If FGL and Front Street do not maintain an effective outsourcing strategy or third-party providers do not perform as contracted, they may experience operational difficulties, increased costs and a loss of business that could have a material adverse effect on their results of operations. In addition, FGL's and Front Street's reliance on third-party service providers that they do not control does not relieve them of their responsibilities and requirements. Any failure or negligence by such third-party service providers in carrying out their contractual duties may result in FGL and Front Street becoming subjected to liability to parties who are harmed and ensuing litigation. Any litigation relating to such matters could be costly, expensive and time-consuming, and the outcome of any such litigation may be uncertain.

Moreover, any adverse publicity arising from such litigation, even if the litigation is not successful, could adversely affect FGL's and Front Street's reputation and sales of their products.

FGL and Front Street are exposed to the risks of natural and man-made catastrophes, pandemics and malicious and terrorist acts that could materially adversely affect their business, financial condition and results of operations. Natural and man-made catastrophes, pandemics and malicious and terrorist acts present risks that could materially adversely affect FGL's or Front Street's results of operations. A natural or man-made catastrophe, pandemic or malicious or terrorist act could materially adversely affect the mortality or morbidity experience of FGL's business or its reinsurers, including Front Street. Such events could adversely affect the mortality and morbidity experience of

FGL's or Front Street's business. Claims arising from such events could have a material adverse effect on FGL's or Front Street's business, operations and financial condition, either directly or as a result of their effect on FGL's reinsurers including Front Street or other counterparties. Such events could also have an adverse effect on lapses and surrenders of existing policies, as well as sales of new policies. While FGL and Front Street have taken steps to identify and manage these risks, such risks cannot be predicted with certainty, nor fully protected against even if anticipated.

In addition, such events could result in overall macroeconomic volatility or specifically a decrease or halt in economic activity in large geographic areas, adversely affecting the marketing or administration of FGL's or Front Street's business within such geographic areas or the general economic climate, which in turn could have an adverse effect on FGL's or Front Street's business,

Table of Contents

operations and financial condition. The possible macroeconomic effects of such events could also adversely affect FGL's or Front Street's asset portfolio.

FGL and Front Street operate in highly competitive industries, which could limit their abilities to gain or maintain their respective positions in the industries and could materially adversely affect their business, financial condition and results of operations.

FGL and Front Street operate in highly competitive industries. FGL encounters significant competition in all of its product lines from other insurance companies. Front Street faces significant competition from other reinsurance providers. Many of FGL's and Front Street's competitors have greater financial resources and, with respect to FGL, higher financial strength ratings, which may have a greater market share, offer a broader range of products, services or features, assume a greater level of risk, have lower operating or financing costs, or have different profitability expectations than FGL or Front Street, as applicable. Competition could result in, among other things, lower sales or higher lapses of existing products.

FGL's annuity products compete with fixed indexed, fixed rate and variable annuities sold by other insurance companies and also with mutual fund products, traditional bank investments and other retirement funding alternatives offered by asset managers, banks and broker-dealers. FGL's insurance products compete with those of other insurance companies, financial intermediaries and other institutions based on a number of factors, including premium rates, policy terms and conditions, service provided to distribution channels and policyholders, ratings by rating agencies, reputation and commission structures.

Consolidation in the insurance and reinsurance industries and in distribution channels may result in increasing competitive pressures on FGL and Front Street. Larger, potentially more efficient organizations may emerge from such consolidation. In addition, some mutual insurance companies have converted to stock ownership, which gives them greater access to capital markets and greater ability to compete. The ability of banks to increase their securities-related business or to affiliate with insurance companies may materially and adversely affect sales of all of FGL's products by substantially increasing the number and financial strength of potential competitors. Consolidation and expansion among banks, insurance companies and other financial services companies with which FGL and Front Street do business could also have an adverse effect on their business, operations and financial condition if they demand more favorable terms than FGL or Front Street previously offered or if they elect not to continue to do business with FGL or Front Street following consolidation or expansion.

FGL's ability to compete is dependent upon, among other things, its ability to develop competitive and profitable products, its ability to maintain low unit costs, and its maintenance of adequate financial strength ratings from rating agencies. FGL's ability to compete is also dependent upon, among other things, its ability to attract and retain distribution channels to market its products, the competition for which is vigorous. FGL competes for marketers and agents primarily on the basis of FGL's financial position, support services, compensation and product features. Such marketers and agents may promote products offered by other life insurance companies that may offer a larger variety of products than FGL does. FGL's competitiveness for such marketers and agents also depends upon the long-term relationships FGL develops with them. If FGL is unable to attract and retain sufficient marketers and agents to sell its products, its ability to compete and FGL's revenues will suffer.

Front Street's ability to successfully compete will be dependent on, among other things, risks associated with an insurance business and managing of assets, including, among other things, Front Street's: (a) ability to successfully implement its investment strategy, especially with respect to riskier, below-investment-grade securities; (b) exposure to credit risk associated with third parties, including brokers with whom it will conduct business; (c) ability to provide collateral to ceding companies or otherwise comply with applicable insurance regulations; (d) ability to successfully employ loss limitation methods to mitigate its loss exposure; (e) ability to attract qualified personnel and retain such key personnel; (f) mitigate unfavorable changes in applicable laws, accounting rules or regulations; (g) operational risks associated with, among other things, employee and contractor conduct, operational errors, system malfunctions and cyber-security incidents; and (h) successfully maintain its existing investments.

FGL's ability to maintain competitive policy expense costs is dependent upon the level of new sales and persistency of existing business.

FGL's ability to maintain competitive policy expense costs is dependent upon a number of factors, such as the level of new sales, persistency of existing business and expense management. A decrease in sales or persistency without a corresponding reduction in expenses may result in higher policy expense costs.

In addition, lower persistency may result in higher or more rapid amortization of VOBA costs, which would result in higher unit costs and lower reported earnings. Although many of FGL's products contain surrender charges, such charges decrease over time and may not be sufficient to cover the unamortized DAC and VOBA costs with respect to the insurance policy or annuity contract being surrendered.

There may be adverse consequences if the independent contractor status of FGL's IMOs is successfully challenged. FGL sells its products through a network of approximately 200 IMOs representing approximately 35,000 independent agents and managing general agents. FGL currently treats these IMOs as independent contractors who own their own businesses. However, the tests governing the determination of whether an individual is considered to be an independent contractor or an employee are typically fact sensitive and vary from jurisdiction to jurisdiction. Laws and regulations that govern the status of the IMOs are subject to change or interpretation by various authorities. If a federal, state or local authority or court enacts

Table of Contents

legislation or adopts regulations or adopts an interpretation that changes the manner in which employees and independent contractors are classified or makes any adverse determination with respect to some or all of FGL's independent contractors, FGL could incur significant costs in complying with such laws, regulations or interpretations, including, in respect of tax withholding, social security payments and recordkeeping, or FGL could be held liable for the actions of such independent contractors or may be required to modify its business model, any of which could have a material adverse effect on FGL's business, financial condition and results of operations. In addition, there is the risk that FGL may be subject to significant monetary liabilities arising from fines or judgments as a result of any such actual or alleged non-compliance with federal, state or local tax or employment laws. Further, if it were determined that FGL's IMOs should be treated as employees, FGL could possibly incur additional liabilities with respect to any applicable employee benefit plan.

If FGL is unable to attract and retain national marketing organizations and independent agents, sales of FGL's products may be reduced.

FGL must attract and retain its network of IMOs and independent agents to sell its products. Insurance companies compete vigorously for productive agents. FGL competes with other life insurance companies for marketers and agents primarily on the basis of FGL's financial position, support services, compensation and product features. Such marketers and agents may promote products offered by other life insurance companies that may offer a larger variety of products than FGL does. FGL's competitiveness for such marketers and agents also depends upon the long-term relationships FGL develops with them. FGL's most important IMOs (those who are able to meet certain production targets) are referred to as "Power Partners". FGL currently has 32 Power Partners that accounted for approximately 95.0% of FGL's Fiscal 2016 sales volume. There can be no guaranty that such relationships will continue in the future. If FGL is unable to attract and retain sufficient marketers and agents to sell its products, FGL's ability to compete and its revenues would suffer.

FGL may be subject to an additional tax as a personal holding company on future undistributed personal holding company income if it generates passive income in excess of operating expenses (subject to certain exclusions relating to FGL's life insurance subsidiaries).

Section 541 of the Code subjects a corporation (not including a life insurance corporation) that is a "personal holding company" ("PHC") to a 20% tax on "undistributed personal holding company income" in addition to a corporation's normal income tax. A corporation (not including a life insurance corporation) is also generally considered to be a PHC if (i) at least 60% of its adjusted ordinary gross income (excluding dividends paid by any non-consolidated life insurance subsidiary) is PHC Income (defined below) and (ii) more than 50% in value of its outstanding stock is owned, directly or indirectly, by five or fewer individuals (including, for this purpose, certain organizations and trusts) at any time during the last half of the taxable year. Personal holding company income ("PHC Income") is comprised primarily of passive investment income (but does not include non-passive income such as insurance premiums or dividends paid by any non-consolidated life insurance subsidiary) plus, under certain circumstances, personal service income.

So long as individuals and their affiliates hold (directly or by attribution) more than 50% in value of FGL's outstanding common stock, including through ownership of the outstanding common stock of HRG at any time during any future tax year, it is possible that FGL will be a PHC if at least 60% of its adjusted ordinary gross income consists of PHC Income (taking into account the rules and exclusions discussed above). In the past, FGL has not incurred the PHC tax. However, there can be no assurance that FGL will not be subject to this tax in the future, which, in turn, may materially and adversely impact its financial position, results of operations, cash flows and liquidity.

The agreements and instruments governing FGL's debt contain significant operating and financial restrictions, which may prevent FGL from capitalizing on business opportunities.

The indenture governing the 6.375% senior notes due 2021 (the "Senior Notes") issued by FGH and the three-year \$150.0 million unsecured revolving credit facility (the "Credit Agreement"); each contains various restrictive covenants which limit, among other things, FGH's ability to:

- incur additional indebtedness;
- pay dividends or certain other distributions on its capital stock other than as allowed under the indenture and the Credit Agreement;
- make certain investments or other restricted payments;

- engage in transactions with stockholders or affiliates;
- sell certain assets or merge with or into other companies;
- change FGH's accounting policies;
- enter into restrictive agreements;
- guarantee indebtedness; and
- create liens.

70

Table of Contents

In addition, if FGL or FGH undergoes a “change of control” as defined in the indenture, each holder of FGH Senior Notes will have the right to require FGL to repurchase their FGL Senior Notes at a price equal to 101% of the principal amount and any accrued but unpaid interest.

As a result of these restrictions and their effect on FGL, FGL may be limited in how it conducts its business and FGL may be unable to raise additional debt financing to compete effectively or to take advantage of new business opportunities. The terms of any future indebtedness FGL or its subsidiaries may incur could include more restrictive covenants.

FGL has entered into business transactions with unaffiliated third-party borrowers through Salus and would be adversely affected if third-party borrowers were unable to meet their obligations.

FGL maintains exposure to senior secured asset-based loans to unaffiliated third-party borrowers through loans originated by Salus, a company indirectly owned by HRG. FGL Insurance has not participated in any new originations to asset-based loans through Salus since October 2014, and this portfolio has been winding down as exposures mature and borrowers refinance. As of September 30, 2016, \$20.9 million of such loans were outstanding. FGL currently estimates that this portfolio will be largely paid down by the end of calendar year 2017.

Risks Related to Salus’ Business

Salus may not recover all amounts that are contractually owed to it by its borrowers and may not be able to adequately address the various risks it faces in executing its business strategy.

During Fiscal 2016, Salus determined to focus its efforts primarily on monitoring, servicing and collecting its existing loans and winding-down its operations. The success of Salus’ business strategy is primarily dependent on its ability to recover amounts owed to it by its borrowers. While Salus has developed a variety of processes to value and monitor the collateral related to its loans and maintain its position in the collateral securing its loans, there can be no assurance that it will not suffer a partial or complete loss if the loan becomes non-performing. Such loss may arise from a variety of reasons, including, the risk profile of the borrower and the complex nature of the transaction; Salus not being provided with complete and accurate disclosure of all material information concerning the borrower and its business or Salus may, even if it receives complete and accurate information, misinterpret or incorrectly analyze such information; the failure of results or developments to materialize as anticipated or mistakes in interpreting data, assumptions, analyses, and financial forecasts prepared for Salus by its employees or third parties; or Salus’ inability to timely detect operational or financial problems of the borrower that could result in a substantial impairment or loss of the value of the collateral and Salus’ loan. Furthermore, while most of Salus’ loans are secured by a first lien on specified collateral, there is no assurance that Salus has obtained or properly perfected its liens or will be able to seize and liquidate the collateral prior to diminution in value. Any such losses, particularly recognizing that many of Salus’ loans individually represent a significant percentage of its total loans, could adversely affect the adequacy of Salus’ reserves for credit losses and have a material adverse effect on Salus’ business, results of operations, and financial position. For example, during Fiscal 2015, RadioShack Corp. (“RadioShack”), Salus’ largest borrower, filed for Chapter 11 bankruptcy. Following lengthy and costly litigation, Salus did not receive the full amount of the loan it had provided to RadioShack, which had a negative effect on the business and operations of Salus and its loan participants, FGL and Front Street. Salus and its loan participants, FGL and Front Street, could be further adversely affected if Salus is unable to recover the full amount owned to it by its other borrowers.

Salus cannot predict the timing of the completion of the wind-down of its business or the timing and the costs associated with such wind-down. The completion of the wind-down could also be delayed or diminished due to other factors, including, without limitation:

- if Salus becomes a party to any lawsuits or other claims asserted by or against it; or
- if Salus is unable to resolve any new claims or investigations with creditors or third parties, or if such resolutions take longer than expected.

Claims, liabilities and expenses from operations (such as administrative costs, salaries, directors’ and officers’ insurance, federal and state income taxes, business and local taxes, legal and accounting fees and miscellaneous office expenses) will continue to be incurred by Salus as it seeks to wind-down its business. Salus’ expectations regarding its expenses may be inaccurate and/or unexpected claims, liabilities or expenses may arise which could negatively impact

Salus' operations, cash flow and financial condition and its ability to wind-down its operations in an orderly and efficient manner or at all.

Salus has a small number of employees and relies on their services and the services of consultants and advisors to complete the wind-down of its business; if Salus is unable to retain key employees, consultants and/or advisors, its ability to successfully complete the wind-down of its business may be harmed.

Salus' ability to successfully implement the wind-down of its business is partially dependent upon its ability to retain key employees, consultants and advisors. While Salus has offered these individuals certain financial incentives to continue providing services to Salus, there can be no assurance that Salus will be able to retain its key employees, consultants and advisors, which may have an adverse impact on Salus' operations, cash flow and financial condition and its ability to wind-down its operations in an orderly and efficient manner or at all.

Table of Contents

Salus is subject to a variety of operational risks, including legal and compliance risk, the risk of fraud or theft by employees or outsiders, operational errors, systems malfunctions, or cyber-security incidents and other risks, which may adversely affect its business and results of operations.

In collecting its loans and winding-down its business, Salus is exposed to many types of operational risks, including legal and compliance risk, the risk of fraud or theft by borrowers, employees or outsiders, unauthorized transactions by employees or outsiders, or operational errors, including clerical or record keeping errors or those resulting from faulty or disabled computer or telecommunications systems or disclosure of confidential proprietary information of its borrowers and counterparties. In addition, negative public opinion can result from Salus' actual or alleged conduct in any number of activities, including lending practices, sales practices, customer treatment and corporate governance and from actions taken by government regulators and community organizations in response to those activities.

Negative public opinion can expose Salus and its stockholders to litigation and regulatory action.

Salus is subject to a variety of laws and regulations, including laws and regulations applicable to registered investment advisers. In order to conduct its operations in compliance with these laws and regulations, Salus has incurred and is expected to continue to incur substantial costs in order to comply with these laws and regulations. Failure to comply with such laws and regulations, as interpreted and enforced, could have a material adverse effect on Salus' operations, cash flow and financial condition and its ability to wind-down its operations in an orderly and efficient manner or at all.

Salus' businesses is dependent on its ability to process a large number of complex transactions. If Salus' financial, accounting, or other data processing systems fail or have other significant shortcomings, Salus could be materially adversely affected. Salus may also be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control, which may include, for example, computer viruses or electrical or telecommunications outages, natural or man-made disasters, such as earthquakes, hurricanes, floods, or tornadoes, disease pandemics, or events arising from local or regional politics, including terrorist acts. Such disruptions may give rise to losses in service to clients and loss or liability to Salus. In addition, there is the risk that Salus' controls and procedures, as well as business continuity and data security systems prove to be inadequate. The computer systems and network systems Salus uses could be vulnerable to unforeseen problems. These problems may arise in both Salus' internally developed systems and the systems of third-party service providers. In addition, Salus' computer systems and network infrastructure present security risks, and could be susceptible to hacking or identity theft. Any such failure could affect Salus' operations and could materially adversely affect its results of operations by requiring it to expend significant resources to correct the defect, as well as by exposing it to litigation or losses not covered by insurance. Although Salus has business continuity plans and other safeguards in place, Salus' business operations may be adversely affected by significant and widespread disruption to its physical infrastructure or operating systems that support its businesses and clients.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

HRG

HRG leases through HGI Funding its headquarters at 450 Park Avenue, 29th Floor, New York, NY 10022. HRG's lease expires in November 2022. For the operations of certain of HRG's former subsidiaries, HGI Funding leases office space at 64 Wooster Street, 3rd Floor, New York, NY 10012. The lease expires in November 2018.

HRG and its subsidiaries, as applicable, believe their existing facilities are suitable and adequate for their present purposes.

Table of Contents

Spectrum Brands

The following lists Spectrum Brands' principal owned or leased administrative, manufacturing, packaging, and distribution facilities at September 30, 2016:

Corporate and Administrative

Location	Function / Use	Owned / Leased
U.S. Locations		
Middleton, Wisconsin	World Headquarters & GBA Headquarters	Leased
Danbury, Connecticut	GAC Headquarters	Leased
Earth City, Missouri	Pet, Home & Garden Headquarters	Leased
Lake Forest, California	HHI Headquarters	Leased
Miami Lakes, Florida	Latin America Headquarters	Leased
Non-U.S. Locations		
Manchester, England	UK Headquarters	Owned
Mentone, Australia	APAC Headquarters	Leased
Sulzbach, Germany	Europe Headquarters	Leased
Mississauga, Canada	Canada Headquarters	Leased

Global Batteries and Appliances (GBA)

Location	Function / Use	Owned / Leased
U.S. Locations		
Fennimore, Wisconsin	Battery Manufacturing	Owned
Portage, Wisconsin	Battery Manufacturing	Owned
DeForest, Wisconsin	Distribution	Leased
Dixon, Illinois	Distribution	Leased
Redlands, California	Distribution	Leased
Non-U.S. Locations		
Dischingen, Germany	Battery Manufacturing	Leased
Guatemala City, Guatemala	Battery Manufacturing	Owned
Jaboatao, Brazil	Battery Manufacturing	Owned
Washington, UK	Battery Manufacturing	Leased
Ellwangen-Neunheim, Germany	Distribution	Leased
Guatemala City, Guatemala	Distribution	Owned
Mentone, Australia	Distribution	Leased
Santo Domingo, Dominican Republic	Distribution	Owned
Wolverhampton, England	Distribution	Owned

Table of Contents

Home & Hardware Improvement (HHI)

Location	Function / Use	Owned / Leased
U.S. Locations		
Charlotte, North Carolina	Manufacturing & Distribution	Leased
Houston, Texas	Manufacturing & Distribution	Leased
Lititz, Pennsylvania	Manufacturing & Distribution	Leased
Denison, Texas	Manufacturing	Leased
Birmingham, Alabama	Distribution	Leased
Dallas, Texas	Distribution	Leased
Denison, Texas	Distribution	Owned
Elkhart, Indiana	Distribution	Leased
Mira Loma, California	Distribution	Leased
Non-U.S. Locations		
Mexicali, Mexico	Manufacturing & Distribution	Leased
Chia-Yi, Taiwan	Manufacturing	Leased
Nogales, Mexico	Manufacturing	Owned
Subic Bay, Philippines	Manufacturing	Owned
Xiamen, China	Manufacturing	Leased
Xiaolan, China	Manufacturing	Leased
Brockville, Canada	Distribution	Leased
Shenzhen, China	Distribution	Leased

Global Pet Supplies (PET)

Location	Function / Use	Owned / Leased
U.S. Locations		
Blacksburg, Virginia	Manufacturing	Owned
Bridgeton, Missouri	Manufacturing	Leased
Noblesville, Indiana	Manufacturing	Owned
St. Louis, Missouri	Manufacturing	Leased
Edwardsville, Illinois	Distribution	Leased
Non-U.S. Locations		
Bogota, Colombia	Manufacturing & Distribution	Leased
Ambato, Ecuador	Manufacturing	Leased
Coevorden, Netherlands	Manufacturing	Owned
Leon, Mexico	Manufacturing	Leased
Melle, Germany	Manufacturing	Owned
Phnom Penh, Cambodia	Manufacturing	Leased
Melle, Germany	Distribution	Leased

Home & Garden (H&G)

Location	Function / Use	Owned / Leased
U.S. Locations		
St. Louis, Missouri	Manufacturing	Leased
Edwardsville, Illinois	Distribution	Leased

Global Auto Care (GAC)

Location	Function / Use	Owned / Leased
U.S. Locations		
Garland, Texas	Manufacturing & Distribution	Leased
Mentor, Ohio	Manufacturing & Distribution	Leased
Painesville, Ohio	Manufacturing & Distribution	Owned

Non-U.S. Locations

Ebbw Vale, Gwent, Wales Manufacturing & Distribution Leased

74

Table of Contents

Spectrum Brands also owns, operates or contracts with third parties to operate distribution centers, sales and administrative offices throughout the world in support of its business.

Spectrum Brands believes that its existing facilities are suitable and adequate for its present purposes and that the productive capacity in such facilities is substantially being utilized or Spectrum Brands has plans to utilize it.

FGL

FGL leases its headquarters at 601 Locust Street, Des Moines, Iowa, and subleases properties in Baltimore, Maryland and Lincoln, Nebraska for legal, claims and processing needs. Such leases expire December 2020, May 2021 and January 2017 respectively. FGL believes that its existing facilities are suitable and adequate for its present purposes.

Front Street

Front Street leases its headquarters at Sterling House, 16 Wesley Street, Hamilton HM CX, Bermuda. This lease expires in May 2017. Front Street believes its existing facilities are suitable and adequate for its present purposes.

Item 3. Legal Proceedings

See Part IV, Item 15. “HRG Group, Inc. and Subsidiaries Index of Consolidated Financial Statements, Note 22, Commitments and Contingencies — Legal and Environmental Matters to HRG’s Consolidated Financial Statements” included elsewhere in this report.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

Unless otherwise indicated in Part II of this annual report on Form 10-K (this “Form 10-K”) or the context requires otherwise, in this 10-K, references to the “Company,” “HRG,” “we,” “us” or “our” refer to HRG Group, Inc. (formerly, Harbinger Group Inc.) and, where applicable, its consolidated subsidiaries; “FGH” refers to Fidelity & Guaranty Life Holdings, Inc. (formerly, Old Mutual U.S. Life Holdings, Inc.) and, where applicable, its consolidated subsidiaries; “FGL” refers to Fidelity & Guaranty Life (formerly, Harbinger F&G, LLC) and, where applicable, its consolidated subsidiaries; “Fiscal 2012” refers to the fiscal year ended September 30, 2012; “Fiscal 2013” refers to the fiscal year ended September 30, 2013; “Fiscal 2014” refers to the fiscal year ended September 30, 2014; “Fiscal 2015” refers to the fiscal year ended September 30, 2016; “Fiscal 2016” refers to the fiscal year ended September 30, 2016; “Fiscal 2017” refers to the fiscal year ended September 30, 2017; “Front Street” refers to Front Street Re (Delaware) Ltd. and, where applicable, its consolidated subsidiaries; “Front Street Cayman” refers to Front Street Re Cayman Ltd. and, where applicable, its consolidated subsidiaries; “HGI Funding” refers to HGI Funding, LLC; “Salus” refers to Salus Capital Partners, LLC and, where applicable, its consolidated subsidiaries; “SBI” refers to Spectrum Brands, Inc. and, where applicable, its consolidated subsidiaries; and “Spectrum Brands” refers to Spectrum Brands Holdings, Inc. and, where applicable, its consolidated subsidiaries.

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the New York Stock Exchange and trades under the symbol “HRG.” The high and low sales prices for our common stock for each quarterly period for the last two years are shown in the following table.

	High	Low
Fiscal 2016		
First Quarter	\$ 14.11	\$ 11.63
Second Quarter	14.04	10.29
Third Quarter	14.59	12.50
Fourth Quarter	16.39	13.14
Fiscal 2015		
First Quarter	\$ 14.32	\$ 12.06
Second Quarter	14.22	11.51
Third Quarter	13.69	11.55
Fourth Quarter	14.73	11.16

We have not declared any dividends in the past several years and we do not anticipate paying dividends on our common stock in the foreseeable future. Our ability to pay dividends is limited by the terms of our indebtedness and is dependent on the ability of our subsidiaries to pay dividends to us. The ability of our subsidiaries to pay dividends to HRG is subject to restrictions contained in their applicable financing agreements, state and regulatory restrictions and other relevant considerations as determined by the applicable board. See Part I. Item 1A. “Risk Factors-Risks Related to HRG-We are a holding company and our only material assets are our equity interests in our operating subsidiaries and our other investments; as a result, our principal source of revenue and cash flow is distributions from our subsidiaries; our subsidiaries may be limited by law and by contract in making distributions to us.”

As of November 17, 2016, there were approximately 1,516 holders of record of our common stock. This number does not include the stockholders for whom shares are held in a “nominee” or “street” name.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information with respect to compensation plans under which our equity securities are authorized for issuance as of September 30, 2016:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under
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	and rights (in thousands) (a)	(b)	equity compensation plans (excluding securities reflected in column (a)) (in thousands) (c)
Equity compensation plans approved by security holders	7,448	\$ 7.50	9,065
Equity compensation plans not approved by security holders	—	—	—
Total	7,448	\$ 7.50	9,065

76

Table of Contents

Equity Plans

Our stockholders approved the adoption of the HRG Group, Inc. 2011 Omnibus Equity Award Plan (formerly, Harbinger Group Inc. 2011 Omnibus Equity Award Plan, as amended (the “2011 Plan”), pursuant to which incentive compensation and performance compensation awards may be provided to employees, directors, officers and consultants of the Company or of its subsidiaries or their respective affiliates. The 2011 Plan authorizes the issuance of up to 24 million shares of common stock, par value \$0.01 per share, of the Company. In addition, our stockholders approved the adoption of the Harbinger Group Inc. 2014 Warrant Plan (the “2014 Warrant Plan”) pursuant to which the Company awarded, Philip Falcone, its former Chief Executive Officer, warrants representing the right to purchase approximately 3 million shares of our common stock, at an exercise price of \$13.125 per share. A portion of the warrants, representing 600 thousand shares, vested immediately upon approval of the grant, and the remainder would vest in equal installments on March 10, 2015, 2016, 2017 and 2018. At September 30, 2016, there were 1.2 million warrants outstanding and not yet vested. The description of the 2011 Plan and 2014 Warrant Plan above is qualified in its entirety by reference to the full text of the 2011 Plan and 2014 Warrant Plan. Refer to Note 18, Stock-Based Compensation, to our Consolidated Financial Statements included in Part IV - Item 15. Exhibits, Financial Statements and Schedules for additional information.

Share Repurchases

On May 8, 2014, our board of directors authorized us to enter into a repurchase program, which replaced our prior share repurchase program. This share repurchase program authorized us to repurchase up to \$100.0 million of shares of our common stock, subject to certain restrictions and provisions. During Fiscal 2015, HRG purchased 1.7 million shares of its outstanding common stock for an aggregate purchase price of \$22.2 million under this program. During Fiscal 2016, HRG did not repurchase any of its outstanding common stock. As of September 30, 2016, under this program we had repurchased a total of 6.9 million shares of our common stock, at an aggregate repurchase price of \$87.7 million with \$12.3 million remaining value of the shares that may yet to be purchased. This program does not have an expiration date, but may be suspended, discontinued, modified and/or reinstated at any time and without prior notice.

Recent Sales of Unregistered Securities

None.

Stock Performance Graph

Set forth below is a line-graph presentation comparing the cumulative stockholder return on our common stock against cumulative total returns of the following: (a) the Russell 2000 and (b) a peer group of companies consisting of Leucadia, Carlisle Companies Inc., Apollo Global Management, LLC and Standex International Corp. The performance graph shows the total return on an investment of \$100 for the period beginning September 30, 2011 and ending September 30, 2016. The Company believes that the peer group of companies provides a reasonable basis for comparing total stockholder returns. The stockholder return shown on the graph below is not necessarily indicative of future performance, and we will not make or endorse any predictions as to future stockholder returns. The graph and related data were furnished by Research Data Group, Inc.

Table of Contents

Item 6. Selected Financial Data

The following table sets forth certain selected historic financial information for the periods and as of the dates presented and should be read in conjunction with our accompanying consolidated financial statements and the related notes thereto referenced in Item 8 of this report and with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Item 7 of this report. Certain prior year amounts have been reclassified or combined to conform to the current year presentation, including reclassifications to reflect the presentation of discontinued operations, assets and liabilities of business held for sale and business of discontinued operations, as well as the adoption of new accounting pronouncements. All amounts are in millions, except for per share amounts.

	Year ended September 30,				
	2016	2015 ⁽¹⁾	2014 ⁽²⁾	2013 ⁽³⁾	2012
Income Statement Data:					
Revenues	\$5,215.4	\$4,709.7	\$4,634.7	\$4,123.5	\$3,260.8
Operating income ⁽⁴⁾	628.0	45.8	427.4	286.3	248.3
Interest expense ⁽⁵⁾	(397.1)	(401.6)	(298.8)	(504.7)	(250.4)
Loss from the change in the fair value of the equity conversion feature of preferred stock	—	—	(12.7)	(101.6)	(156.6)
Net income (loss) from continuing operations	190.4	(290.9)	14.4	(353.7)	(195.5)
(Loss) income from discontinued operations, net of tax ⁽⁶⁾	(224.3)	(221.5)	87.3	284.7	306.2
Net (loss) income ⁽⁷⁾	(33.9)	(512.4)	101.7	(69.0)	110.7
Net (loss) income attributable to controlling interest	(198.8)	(556.8)	(10.3)	(45.8)	89.5
Preferred stock dividends, accretion and loss on conversion	—	—	73.6	48.4	59.6
Net (loss) income attributable to common and participating preferred stockholders	(198.8)	(556.8)	(83.9)	(94.2)	29.9
Gain on contingent purchase price reduction	—	8.5	0.5	—	41.0
Per Share Data:					
Net income (loss) per common share:					
Basic income (loss) from continuing operations	\$0.23	\$(1.58)	\$(0.97)	\$(2.71)	\$(1.98)
Basic (loss) income from discontinued operations	(1.23)	(1.23)	0.46	2.04	2.19
Basic	\$(1.00)	\$(2.81)	\$(0.51)	\$(0.67)	\$0.21
Diluted income (loss) from continuing operations ⁽⁸⁾	\$0.22	\$(1.58)	\$(0.97)	\$(2.71)	\$(1.98)
Diluted (loss) income from discontinued operations ⁽⁸⁾	(1.21)	(1.23)	0.46	2.04	2.19
Diluted	\$(0.99)	\$(2.81)	\$(0.51)	\$(0.67)	\$0.21
Weighted average common shares outstanding:					
Basic	198.4	198.1	162.9	139.9	139.4
Diluted ⁽⁸⁾	201.6	198.1	162.9	139.9	139.4
Cash Flow and Related Data:					
Net cash provided by continuing operating activities	\$558.2	\$300.3	\$476.9	\$253.7	\$374.3
Capital expenditures	95.4	90.6	75.5	82.7	47.3
Depreciation and amortization	183.7	171.0	158.2	140.3	104.8
Balance Sheet Data (at year end):					
Cash and cash equivalents	\$497.3	\$661.2	\$728.8	\$677.0	\$421.3
Total assets	35,792.8	35,031.5	32,907.3	30,884.3	25,331.0
Total debt	5,430.9	5,984.6	4,851.3	4,561.1	2,073.2
Total shareholders’ equity	1,817.2	1,588.1	2,257.0	1,133.5	1,598.9

(1) Fiscal 2015 operating results include the Armored AutoGroup business’ operations since the acquisition date of May 21, 2015, Salix Animal Health LLC (“Salix”) operations since the acquisition date of January 16, 2015;

European IAMS and Eukanuba pet food business (“European IAMS and Eukanuba”) operations since the acquisition date of December 31, 2014; and Tell Manufacturing, Inc. (“Tell”) operations since the acquisition date of October 1, 2014. The Armored AutoGroup business contributed \$160.5 million in revenues and recorded an operating profit of \$21.8 million for the period from May 21, 2015 through September 30, 2015. Fiscal 2015 also includes \$61.1 million of acquisition and integration-related charges, a portion of which was associated with the Armored AutoGroup business acquisition.

(2) Fiscal 2014 operating results include the Liquid Fence Company (“Liquid Fence”) operations since the acquisition date of January 2, 2014.

Table of Contents

- Fiscal 2013 operating results includes the Hardware & Home Improvement business' ("HHI business") operations since the acquisition date of December 17, 2012. The HHI business contributed \$869.6 million in revenues and (3) recorded an operating profit of \$88.7 million for the period from December 30, 2012 through September 30, 2013. Fiscal 2013 also includes \$53.2 million of acquisition and integration-related charges principally associated with the HHI business acquisition.
- In Fiscal 2016, HRG recorded net increase to provision of \$12.8 million for credit losses on Salus' asset-based loan portfolio and impairments of \$10.7 million to goodwill of CorAmerica Capital, LLC ("CorAmerica") as a result of amending its investment management agreement with a counterparty that resulted in a decrease to CorAmerica's projected future revenues. In addition, \$4.7 million impairment on indefinite-lived intangible asset was recorded due to the reduction in value of certain tradenames in response to changes Spectrum Brands' strategy. In Fiscal 2015, HRG recorded \$93.5 million related to deterioration in Salus' asset-based loan portfolio, including \$66.0 (4) million related to the bankruptcy of RadioShack Corporation ("RadioShack"), a significant Salus borrower. HRG also recorded impairments of \$60.2 million to goodwill and the intangible assets as a result of the change of strategic direction of HRG's former subsidiary, Frederick's of Hollywood Group Inc. ("FOH"). In April 2015, FOH, its parent company, FOHG Holdings, LLC ("FOHG"), and their subsidiaries filed for bankruptcy, and any remaining assets and liabilities were deconsolidated. Upon deconsolidation, HRG recognized a gain of \$38.5 million, primarily resulting from the elimination of FOH's cumulative historical losses. Following the completion of the bankruptcy of FOHG, FOH and their subsidiaries, such entities ceased to be subsidiaries of HRG.
- Fiscal 2016, 2015, 2014, 2013 and 2012 interest expense includes charges totaling \$21.4 million, \$58.8 million, \$9.2 million, \$210.1 million and \$31.7 million, respectively, relating to the refinancing, prepayment and/or (5) amendment of various senior debt. Such charges include cash fees and expenses of \$15.6 million, \$46.0 million, \$0.0 million, \$181.2 million and \$26.4 million, respectively, and non-cash charges for write-off and accelerated amortization of unamortized debt issuance costs and discount/premium of \$5.8 million, \$12.8 million, \$9.2 million \$28.9 million and \$5.3 million, respectively.
- In Fiscal 2016, following FGL and Anbang Insurance Group Co., Ltd and its affiliates entering into a definitive merger agreement, our ownership interest in FGL was classified as held for sale in the accompanying Consolidated Balance Sheets and FGL's operations were classified as discontinued operations in the accompanying Consolidated (6) Statements of Operations and the Consolidated Statements of Cash Flows and reported separately for all periods presented. In addition, following the completion of the sale of Compass in Fiscal 2016, the Company no longer owns, directly or indirectly, any oil and gas properties and as a result, the results of Compass were presented as discontinued operations in the accompanying Consolidated Statements of Operations and Consolidated Statements of Cash Flows and reported separately for Fiscal 2016, Fiscal 2015, Fiscal 2014 and Fiscal 2013.
- Fiscal 2015, 2013 and 2012 income tax (benefit) expense of \$(16.2) million, \$29.4 million and \$60.4 million, (7) respectively, include non-cash charges of approximately \$190.8 million, \$171.7 million and \$58.2 million, respectively, resulting from an increase in the valuation allowance against certain net deferred tax assets. Fiscal 2016 and 2014 income tax expense of \$41.5 million and \$89.6 million, respectively, include non-cash benefits of approximately \$42.3 million and \$31.8 million, respectively, resulting primarily from a decrease in the valuation allowance.
- (8) For Fiscal 2016, there were 1.9 million and 1.3 million weighted-average shares of HRG's common stock related to awards of restricted stock and stock units and stock options, respectively, that were included in the calculation of "diluted net loss per common share attributable to controlling interest." For Fiscal 2015, there were 2.7 million and 1.3 million weighted-average shares of HRG's common stock related to awards of restricted stock and stock units and stock options, respectively, that were excluded from the calculation of "diluted net loss per common share attributable to controlling interest" because the as-converted, unvested restricted stock and stock units, and stock options would have been anti-dilutive for Fiscal 2015. Also excluded from the calculations for Fiscal 2016, 2015 and 2014 were respectively 1.2 million, 1.8 million and 3.0 million shares of HRG common stock issuable upon the exercise of warrants issued by the Company because the warrants have an exercise price of \$13.125 per share, which was above the average stock price of HRG's common stock during the entirety of the applicable year. In Fiscal 2014, diluted weighted average common shares outstanding did not reflect the conversion effect of the

Series A Participating Convertible Preferred Stock (“Series A Preferred Shares”) and the Series A-2 Participating Convertible Preferred Stock (“Series A-2 Preferred Shares”, together with the Series A Preferred Shares, the “Preferred Stock”) for the portion of the period that these were outstanding, or the exercise of dilutive common stock equivalents as both would be antidilutive. In Fiscal 2013, diluted weighted average common shares outstanding did not reflect any conversion effect of the Preferred Stock or the exercise of dilutive common stock equivalents as both would be antidilutive. For Fiscal 2012, diluted weighted average common shares outstanding assumes only the exercise of dilutive common stock equivalents as the conversion effect of Preferred Stock would be antidilutive. See Note 21, Earnings Per Share, to our Consolidated Financial Statements included elsewhere in this report for further details regarding the calculation of net income (loss) per common share. For Fiscal 2016 and 2015, the conversion effect of the Preferred Stock had no impact on the diluted weighted average common shares as the Preferred Stock was converted in the third quarter of Fiscal 2014.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" of HRG should be read in conjunction with Item 6, "Selected Financial Data," and our accompanying consolidated financial statements and related notes (the "Consolidated Financial Statements") referred to in Item 8 of this Form 10-K. Certain statements we make under this Item 7 constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. See "Forward-Looking Statements" at the beginning of Part I of this Form 10-K. You should consider our forward-looking statements in light of our Consolidated Financial Statements and other financial information appearing elsewhere in this Form 10-K and our other filings with the Securities and Exchange Commission (the "SEC").

HRG Overview

We are a holding company that conducts its operations through its operating subsidiaries. As of September 30, 2016, our principal operations were conducted through subsidiaries that offer branded consumer products and related businesses (Spectrum Brands Holdings, Inc., ("Spectrum Brands")) and insurance and reinsurance services (FGL and Front Street Re (Delaware) Ltd., ("Front Street")). We also own Salus Capital Partners, LLC ("Salus"), an asset-based lender, and 97.9% of NZCH Corporation ("NZCH", formerly Zap.Com Corporation), a public shell company. From time to time, we may manage a portion of our available cash and engage in other activities through our wholly-owned subsidiaries, HGI Funding, LLC ("HGI Funding") and HGI Energy Holdings, LLC ("HGI Energy").

We currently present our operations in two reportable segments: (i) Consumer Products, which consists of Spectrum Brands; and (ii) Insurance, which consists of Front Street.

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 (which was amended on November 3, 2016, as amended, 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, our ownership interest in FGL has been classified as held for sale in the accompanying Consolidated Balance Sheets and FGL's operations were classified as discontinued operations in the accompanying Consolidated Statements of Operations and the Consolidated Statements of Cash Flows and reported separately for all periods presented. Prior to the transaction, FGL was included in our 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 to our Consolidated Financial Statements included in Part IV - Item 15. Exhibits, Financial Statements and Schedules for additional information.

During the fourth quarter of Fiscal 2016, HGI Energy completed the sale of its equity interests in Compass to a third party (the "Compass Sale"). Following the completion of the Compass Sale, the Company no longer owns, directly or indirectly, any oil and gas properties and accordingly, the results of Compass are presented as discontinued operations in the accompanying Consolidated Statements of Operations and the operations of HGI Energy are included in the Corporate and Other segment. See Note 4, Divestitures to our Consolidated Financial Statements included in Part IV - Item 15. Exhibits, Financial Statements and Schedules for additional information.

Consumer Products Segment

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

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

Insurance Segment

Through Front Street and its Bermuda and Cayman-based subsidiaries, we engage in the business of life, annuity and long-term care reinsurance.

Table of Contents

Highlights for Fiscal 2016:

Significant Transactions and Activity

During Fiscal 2016, Spectrum Brands completed a cash tender offer to purchase any and all of Spectrum Brands' 6.375% Senior Notes due 2020 (the "6.375% Notes"). As part of the transaction, Spectrum Brands received tenders from the holders of \$390.3 million of its outstanding 6.375% Notes and has accepted for purchase all 6.375% Notes which were validly tendered. In addition, on October 20, 2016, Spectrum Brands redeemed the remaining \$129.7 million aggregate principal amount of 6.375% Notes with a call premium of \$4.6 million.

On September 20, 2016, SBI issued €425.0 million aggregate principal amount of 4.00% Notes at par value, due October 1, 2026 (the "4.00% Notes").

On October 6, 2016, subsequent to the end of the fiscal year, Spectrum Brands replaced all of its U.S. dollar-denominated term loans with new U.S. dollar-denominated term loans that carry lower interest rate margins, but otherwise are on the same terms as the old term loans, including the maturity date.

On November 8, 2015, Anbang entered into the FGL Merger Agreement. Pursuant to this agreement, Anbang, through its subsidiaries, will acquire all of the outstanding shares of FGL at closing. Stockholders of FGL will receive \$26.80 per share in cash at closing. At the date of the transaction, the Company owned 47.0 million shares, or 80.5% of FGL. On November 3, 2016, subsequent to the end of Fiscal 2016, FGL, Anbang, AB Infinity, and Merger Sub amended the FGL Merger Agreement to extend the outside termination date for the completion of the FGL Merger from November 7, 2016 to February 8, 2017.

During Fiscal 2016, Front Street was provided information on a recapture notice of a reinsurance agreement between third parties and as a result, Front Street's funds withheld receivables and insurance reserves decreased by approximately \$83.0 million during Fiscal 2016.

During the first quarter of Fiscal 2016, Compass Production Partners ("Compass") completed the sale of its Holly, Waskom, and Danville assets (the "Compass Asset Sale") for a total cash consideration of \$153.4 million. Proceeds were primarily used to reduce Compass' borrowings under its credit facility (the "Compass Credit Agreement").

During the fourth quarter of Fiscal 2016, HGI Energy completed the sale of its equity interests in Compass to a third party for a cash purchase price of \$145.0 million (the "Compass Sale"). The proceeds received by HGI Energy from the Compass Sale were reduced by the outstanding balance of Compass' existing credit facility of \$125.2 million.

Following the completion of the Compass Sale, the Company no longer owns, directly or indirectly, any oil and gas properties and accordingly, the results of Compass were presented as discontinued operations in the accompanying Consolidated Statements of Operations. The results HGI Energy are presented within the Corporate and Other segment. All historical results have been recast to reflect this change.

During Fiscal 2016, Salus and Front Street received a partial recovery on the loan to a significant Salus borrower, RadioShack, of \$45.4 million, excluding \$22.7 million repayment on FGL's participation on the loan. As a result of the aforementioned partial recovery, we also reversed \$18.0 million of previously recorded allowance for bad debt, excluding \$9.0 million reversal of realized losses by FGL included in "(Loss) income from discontinued operations, net of tax" in the accompanying Consolidated Statements of Operations.

During Fiscal 2016, Salus determined to focus its efforts primarily on monitoring, servicing and collecting its existing loans and winding down its business. Salus may, however, pursue other opportunities that it may consider strategically advantageous or complimentary to its efforts to collect its existing loans.

During the third quarter of Fiscal 2016, CorAmerica amended its investment management agreement with a counterparty that resulted in a decrease to CorAmerica's projected future revenues, which triggered a goodwill impairment test. The test resulted in an impairment of \$10.7 million to goodwill.

During the fourth quarter of Fiscal 2016, we sold our 51.0% interest in CorAmerica for \$0.5 million. During Fiscal 2016, we also wound-down the operations of Energy & Infrastructure Capital, LLC ("EIC"), our other asset manager. The operations of Salus, CorAmerica and EIC were historically presented in a separate reportable segment. As a result of the diminished operations in that segment, starting in Fiscal 2016, we are presenting the operations of Salus, CorAmerica and EIC within the Corporate and Other segment. All historical results have been recast to reflect this change.

Key financial highlights

Basic and diluted net loss attributable to common and participating preferred stockholders decreased \$358.0 million to \$198.8 million, or \$1.00 and \$0.99 per basic and diluted common share attributable to controlling interest, respectively, in Fiscal 2016, compared to basic and diluted net loss attributable to common and participating preferred stockholders of \$556.8 million, or \$2.81 per basic and diluted common share attributable to controlling interest in Fiscal 2015.

We ended the year with corporate cash and investments at HRG of approximately \$172.0 million.

Our Consumer Products segment's operating income for Fiscal 2016 increased \$182.2 million, or 38.4%, to \$656.3 million from \$474.1 million for Fiscal 2015. Our Consumer Products segment's adjusted earnings before interest, taxes, depreciation

Table of Contents

and amortization (“Adjusted EBITDA - Consumer Products”) increased by \$152.2 million, or 19.0%, to \$952.8 million versus Fiscal 2015 driven by the performance of Armored AutoGroup Parent Inc. (“AAG”), which was acquired during Fiscal 2015, coupled with higher organic sales and margins in all other product lines. Adjusted EBITDA margin represented 18.9% of sales as compared to 17.1% in Fiscal 2015.

Our Insurance segment’s operating loss for Fiscal 2016 was \$12.4 million compared to \$68.7 million for Fiscal 2015.

• The decrease in operating loss was primarily due to credit impairment losses on intercompany investments of \$11.3 million and \$73.4 million in Fiscal 2016 and Fiscal 2015, respectively.

During Fiscal 2016, we received cash dividends of approximately \$63.5 million from our subsidiaries, including \$50.9 million, \$12.2 million and \$0.4 million from Spectrum Brands, FGL and CorAmerica, respectively, which does not give effect to the net impact from interest payments made by HRG with respect to the intercompany notes issued by HGI Energy.

Table of Contents

Results of Operations

Fiscal 2016 Compared to Fiscal 2015, and Fiscal 2015 Compared to Fiscal 2014

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

	Fiscal			Increase / (Decrease)	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
Revenues:					
Consumer Products	\$5,039.7	\$4,690.4	\$4,429.1	\$349.3	\$261.3
Insurance	150.4	(98.8)	144.3	249.2	(243.1)
Intersegment elimination (a)	16.4	54.7	7.8	(38.3)	46.9
Consolidated segment revenues	5,206.5	4,646.3	4,581.2	560.2	65.1
Corporate and Other	8.9	63.4	53.5	(54.5)	9.9
Total revenues	\$5,215.4	\$4,709.7	\$4,634.7	\$505.7	\$75.0
Operating income (loss):					
Consumer Products	\$656.3	\$474.1	\$481.9	\$182.2	\$(7.8)
Insurance	(12.4)	(68.7)	40.1	56.3	(108.8)
Intersegment elimination (a,b)	68.1	(62.9)	32.5	131.0	(95.4)
Total segment operating income	712.0	342.5	554.5	369.5	(212.0)
Corporate and Other and eliminations	(84.0)	(296.7)	(127.1)	212.7	(169.6)
Consolidated operating income	628.0	45.8	427.4	582.2	(381.6)
Interest expense	(397.1)	(401.6)	(298.8)	4.5	(102.8)
Loss from the change in the fair value of the equity conversion feature of preferred stock	—	—	(12.7)	—	12.7
Gain on deconsolidation of subsidiary	—	38.5	—	(38.5)	38.5
Other income (expense), net	1.0	10.2	(11.9)	(9.2)	22.1
Income (loss) from continuing operations before income taxes	231.9	(307.1)	104.0	539.0	(411.1)
Income tax expense (benefit)	41.5	(16.2)	89.6	57.7	(105.8)
Net income (loss) from continuing operations	190.4	(290.9)	14.4	481.3	(305.3)
(Loss) income from discontinued operations, net of tax	(224.3)	(221.5)	87.3	(2.8)	(308.8)
Net (loss) income	(33.9)	(512.4)	101.7	478.5	(614.1)
Less: Net income attributable to noncontrolling interest	164.9	44.4	112.0	120.5	(67.6)
Net loss attributable to controlling interest	(198.8)	(556.8)	(10.3)	358.0	(546.5)
Less: Preferred stock dividends, accretion and loss on conversion	—	—	73.6	—	(73.6)
Net loss attributable to common and participating preferred stockholders	\$(198.8)	\$(556.8)	\$(83.9)	\$358.0	\$(472.9)

(a) The Intersegment eliminations primarily represent the reversal and reclassification of impairments recorded in our Insurance segment on affiliated investments, as well as usual intercompany transactions for the period. For Fiscal 2015, the Insurance segment eliminations include the reversal of intercompany asset impairments of \$57.1 million.

(b) For its stand-alone reporting purposes, Front Street elected, since inception, to apply the fair value option to account for its funds withheld receivables, non-funds withheld assets and future policyholder benefits reserves related to its assumed reinsurance. For our consolidated reporting, the results from Front Street's assumed reinsurance business with FGL is reported on FGL's historical basis. Accordingly, in order to align our consolidated reporting, we have recorded a net intersegment adjustment to operating income (loss) of \$59.7 million, \$(115.4) million and \$45.1 million for Fiscal 2016, 2015 and 2014, respectively. Upon completion of the FGL Merger, our consolidated results will reflect all reinsurance business on the fair value option.

Revenues. Revenues for Fiscal 2016 increased \$505.7 million, or 10.7%, to \$5,215.4 million from \$4,709.7 million for Fiscal 2015. The increase was primarily due to growth from acquisitions and organic net sales from our Consumer Products segment, coupled with an increase in fair value of the underlying fixed maturity debt securities included in the funds withheld receivables in the Insurance segment due to lower interest rates and tighter credit spreads. These increases were partially offset by negative impact of foreign exchange in the Consumer Products segment; lower sales revenue associated with FOH that was deconsolidated in Fiscal 2015; and lower investment income as a result of the decrease in the asset-based loan portfolio of Salus.

Revenues for Fiscal 2015 increased \$75.0 million, or 1.6%, to \$4,709.7 million from \$4,634.7 million for Fiscal 2014. The increase was primarily due to sales growth driven by acquisitions in the Consumer Products segment. This was offset by the

Table of Contents

negative impact of foreign exchange in the Consumer Products segment and a decrease in the fair value of the underlying fixed maturity debt securities included in the funds withheld receivables during Fiscal 2015, coupled with realized losses related to credit impairment losses related to intercompany investments and asset-based loan participations that were recorded in Fiscal 2015.

Consolidated operating income. Consolidated operating income for Fiscal 2016 increased \$582.2 million, or 1,271.2%, to \$628.0 million from an operating income of \$45.8 million for Fiscal 2015. The \$582.2 million increase in operating income was mainly due to increased profitability in our Consumer Products segment, lower impairments in our Insurance and Corporate and Other segments, lower selling, acquisition, operating and general expenses in the Corporate and Other segment and an increase in the fair value of the underlying fixed maturity debt securities included in the funds withheld receivables during Fiscal 2016 due to market conditions with decreasing risk-free rates and tightening credit spreads resulting in generally higher valuations of fixed maturity debt securities.

Operating income for Fiscal 2015 decreased \$381.6 million, or 89.3%, to \$45.8 million from \$427.4 million for Fiscal 2014. The decrease was primarily due to impairments in our Insurance and Corporate and Other segments; an increase in the fixed index annuities (“FIA”) present value of future credits in our Insurance segment; increased costs and lower revenues in our Corporate and Other segment; and the severance payments associated with the departure of Philip Falcone, the Company’s former Chief Executive Officer, in December 2014 (the “2014 CEO Departure”).

Interest expense. Interest expense decreased \$4.5 million to \$397.1 million for Fiscal 2016 from \$401.6 million for Fiscal 2015. The decrease was primarily due to \$58.8 million of one-time costs incurred in Fiscal 2015 related to the financing of Spectrum Brands’ acquisition of AAG (the “AAG Acquisition”), the refinancing of certain of Spectrum Brands’ term loans (the “Term Loans Refinancing”) and the refinancing of Spectrum Brands’ revolver facility (the “Revolver Facility Refinancing”) and redemption of SBI’s 6.75% senior unsecured notes (the “6.75% Notes”). Expenses related to the financing of the AAG Acquisition included \$14.1 million of costs related to bridge financing commitments and \$4.5 million of costs related to interest on the acquired AAG senior notes from the date of the acquisition through the time of payoff. Expenses related to the Term Loan Refinancing, Revolver Facility Refinancing and redemption of the 6.75% Notes included: (i) \$16.9 million of cash costs related to the call premium and pre-paid interest on the 6.75% Notes; (ii) \$10.4 million of cash costs related to fees associated with the refinancing of the Term Loan; (iii) \$8.8 million of non-cash costs for the write-off of unamortized deferred financing fees and original issue discount; and (iv) \$4.1 million of non-cash costs for the write off of unamortized deferred financing fees on the 6.75% Notes. This decrease was partially offset by \$21.4 million of non-recurring costs due to Spectrum Brands’ refinancing activity during Fiscal 2016, including (i) \$15.6 million tender premium upon repayment of 6.375% Notes, and (ii) a \$5.8 million non-cash expense for the write-off of debt issuance costs associated with the repayment of 6.375% Notes. Excluding the one-time and non-recurring costs, interest expense increased \$32.9 million due to higher overall debt levels in the Consumer Products segment and Corporate and Other segment.

Interest expense increased \$102.8 million to \$401.6 million for Fiscal 2015 from \$298.8 million for Fiscal 2014. As described further above, the increase was primarily due to \$58.8 million non-recurring costs incurred related to the financing of the AAG Acquisition and Term Loan Refinancing, Revolver Facility Refinancing and redemption of the 6.75% Notes in Fiscal 2015. Also contributing to the increases in interest expense were higher overall debt levels in the Consumer Products segment and Corporate and Other segment, offset in part by refinancing to lower rate debt during Fiscal 2014.

Loss from the change in the fair value of the equity conversion feature of preferred stock. The loss from the change in the fair value of the equity conversion feature of HRG’s then outstanding Preferred Stock of \$12.7 million for Fiscal 2014 was primarily due to an increase in the market price of our common stock from \$10.37 to \$11.69 per share during Fiscal 2014 through the date of the conversion of HRG’s then outstanding Preferred Stock on May 15, 2014. Gain on deconsolidation of subsidiary. FOH was deconsolidated in Fiscal 2015, which resulted in a gain of \$38.5 million upon the elimination of FOH’s cumulative historical losses through April 19, 2015, the date FOHG, FOH and their subsidiaries filed for bankruptcy. Following the completion of the bankruptcy of FOHG, FOH and their subsidiaries, such entities ceased to be subsidiaries of HRG.

Other income (expense), net. Other income decreased \$9.2 million to \$1.0 million for Fiscal 2016 compared to \$10.2 million for Fiscal 2015. Other income for Fiscal 2015 increased \$22.1 million from other expense of \$11.9 million for

Fiscal 2014.

The income for Fiscal 2015 of \$10.2 million was primarily due to unrealized gains on our ownership interest in HC2 Holdings Inc. (“HC2”) which was sold during the first fiscal quarter of 2016; and a gain on contingent purchase price reduction and associated interest income as a result of a settlement with OM Group (UK) Limited (“OMGUK”) during Fiscal 2015 of a purchase price adjustment in connection with HRG’s acquisition of FGL’s subsidiaries; partially offset by foreign exchange losses on asset-based loans denominated in Canadian Dollars for which Salus bears the foreign exchange exposure.

Other expense for Fiscal 2014 of \$11.9 million was primarily due to unrealized losses on marketable securities classified as trading.

Income Taxes. Our tax rates are affected by many factors, including our mix of worldwide earnings related to operations in various taxing jurisdictions, changes in tax legislation and the character of our income.

84

Table of Contents

For Fiscal 2016, our effective tax rate of 17.9% differed from the expected U.S. statutory tax rate of 35.0%. Our tax rate was reduced by the change in judgment in the realizability on a portion of Spectrum Brands' U.S. net operating loss ("NOL") carryforwards that were previously recorded with valuation allowance. This reduction was partially offset by an increase in the valuation allowance needed for current year losses from the Corporate and Other segment in the U.S. that are not more-likely-than-not to be realized. For Fiscal 2016, Spectrum Brands' effective tax rate was reduced primarily due to the release of valuation allowances on U.S. NOL deferred tax assets and income earned outside the U.S. that is subject to statutory rates lower than 35.0% offsetting tax expense on U.S. pretax income. Our effective tax rate for Fiscal 2016 also included the effect of \$25.5 million of income tax expense recognized by Spectrum Brands' for a tax contingency reserve for an uncertain tax position in Germany. During Fiscal 2016, a local court ruled against Spectrum Brands characterization of certain assets as amortizable under Germany tax law. Spectrum Brands has appealed this ruling to the German Federal Court. While Spectrum Brands continues to believe that Spectrum Brands' tax treatment was correct under the applicable German law, Spectrum Brands has concluded that sufficient uncertainty on the ruling from the German Federal Court exists to record a full tax contingency for this exposure.

The effective tax rate for Fiscal 2016 also included the tax effects related to the adoption of Accounting Standards Update ("ASU") No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09") which resulted in the recognition of excess tax benefits in our provision for income taxes rather than paid-in capital of \$25.6 million during Fiscal 2016. In addition, \$5.9 million of excess tax benefits were recognized in (Loss) income from discontinued operations, net of tax as the excess tax benefits increased net operating loss carryforwards that are expected to offset the tax effects of the FGL Merger. During Fiscal 2016, Spectrum Brands determined it is more-likely-than-not that its U.S. deferred tax assets will be used to reduce taxable income, except for tax attributes subject to ownership change limitations, capital losses, and certain state operating losses and credits that will expire unused. Spectrum Brands released \$111.1 million of domestic valuation allowance during Fiscal 2016. Approximately \$25.1 million of the domestic valuation allowance released by Spectrum Brands resulted from additional deferred tax assets created by the adoption of ASU 2016-09, effective October 1, 2015. In December 2015, Spectrum Brands received a ruling from the Internal Revenue Service which resulted in \$87.8 million of U.S. NOL being restored and a release of \$16.2 million of domestic valuation allowance from additional deferred tax assets created by such ruling. Spectrum Brands recorded tax expense of \$3.1 million related to additional foreign valuation allowance during Fiscal 2016.

For Fiscal 2015, our effective tax rate of 5.3% differed from the expected U.S. statutory tax rate of 35.0% and was impacted by pretax losses including significant impairment and bad debt expense in our Corporate and Other segment in the U.S., and certain pretax losses from foreign jurisdictions for which the Company concluded that the tax benefits are not more-likely-than-not to be realized, resulting in the recording of valuation allowances. Additionally, the effective tax rate for Fiscal 2015 included the recognition of a nonrecurring net income tax benefit of \$12.3 million attributable to the tax impact related to the impairment of certain FOH's indefinite lived intangible assets. Due to the indefinite life of these assets for book purposes, the related deferred tax liability was not regarded as a source of taxable income to support the realization of deferred tax assets. Consequently, the impairment recorded resulted in a reduction to the deferred tax liability previously recorded. In addition, for Fiscal 2015, the Company recognized a \$22.8 million income tax benefit from the reversal of a portion of Spectrum Brands' U.S. valuation allowance on deferred tax assets in connection with the acquisition of AAG. As a result of the AAG Acquisition, Spectrum Brands determined that a portion of its pre-existing deferred tax assets are more-likely-than-not to be realized by the combined entity and a portion of the valuation allowance should be eliminated. The discrete tax benefits related to the reversal of Spectrum Brands' valuation allowance and impairments at FOH reduced the Company's income tax expense for Fiscal 2015.

For Fiscal 2014, our effective tax rate of 86.2%, differed from the expected U.S. statutory tax rate of 35.0% and was primarily driven by: (i) pretax losses in the U.S. and some foreign jurisdictions for which the Company concluded that the tax benefits are not more-likely-than-not realizable, resulting in valuation allowances; (ii) an increase in the fair value of the equity conversion feature of our then outstanding Preferred Stock with no tax benefit; (iii) tax amortization of certain indefinite lived intangibles; and (iv) tax expense on income in certain foreign jurisdictions for which the Company will not receive tax credits in the U.S. due to its tax loss position. Partially offsetting these items

was a release of U.S. valuation allowances as a result of a recent acquisition by Spectrum Brands. Up through the 2015 tax year end, the majority of NOLs, capital loss and tax credit carryforwards of HRG and Spectrum Brands were historically subject to valuation allowances, as we concluded that all or a portion of the related tax benefits are not more-likely-than-not to be realized. Utilization of a portion of the NOL, capital loss and tax credit carryforwards of HRG and Spectrum Brands are subject to limitations under Internal Revenue Code (“IRC”) Sections 382 and 383. Such limitations resulted from ownership changes of more than 50 percentage points over a three-year period. When consummated, the FGL Merger is expected to result in a significant amount of tax attribute carryforwards to be realized. As a result, in Fiscal 2016, we reversed a significant portion of our valuation allowance previously recorded against tax attribute carryforwards that are expected to be realized against the tax effects of the FGL Merger. See Part I. Item 1A. Risk Factor - Risks Related to HRG - “HRG and certain of its subsidiaries, including Spectrum Brands and FGL, may not be able to fully utilize their net operating loss and other tax carryforward; restrictions in HRG’s Certificate of Incorporation intended to protect net operating losses and other tax attributes may limit transfer of HRG’s Securities.”

Table of Contents

(Loss) income from discontinued operations, net of tax. Discontinued operations include FGL's and Compass' results from operations that were previously reported in our Insurance segment and our former Energy segment, respectively. Loss from discontinued operations, net of tax for Fiscal 2016 was \$224.3 million compared to \$221.5 million for Fiscal 2015. The \$2.8 million increase in loss from discontinued operations, net of tax was primarily driven by a decrease in income attributable to FGL of \$412.2 million, partially offset by an increase in income attributable to Compass of \$409.4 million.

The decrease in income of \$412.2 million attributable to FGL was driven by a write-down of the carrying value of the assets of business held for sale to fair value less cost to sell of \$362.8 million (mostly due to the increase in unrealized gains, net of offsets in FGL's investment portfolio). Such write-down could be partially reversed if the carrying value of FGL decreases in future reporting periods. If the FGL Merger is consummated, the amount of AOCI related to FGL will be recognized through (loss) income from discontinued operations on the statement of operations and could result in a gain from discontinued operations. In addition, there was a decrease in net income attributable to FGL's operations of \$34.2 million which was driven primarily by a decrease in fair value of FGL's reinsurance related embedded derivative resulting from an increase in the fair value of the underlying assets held in the funds withheld portfolio. Partially offsetting these decreases were increases recognized by FGL in net investment income due to increased average assets under management as well as higher earned yields from repositioning activities, tender offer consideration and bond prepayment income; and insurance and investment product fees due to increases in rider fees on FIA policies and in cost of insurance charges on universal life policies. Also contributing to the decrease in FGL's net income in Fiscal 2016 was \$15.2 million of income tax expense primarily related to the establishment of a deferred tax liability of \$367.9 million at September 30, 2016 as a result of classifying HRG's ownership interest in FGL as held for sale, partially offset by the recognition of a \$94.7 million deferred tax asset related to realized capital losses primarily from the Compass Sale and \$258.0 million reduction of valuation allowances on HRG's net operating and capital loss carryforwards expected to offset the tax effects of the FGL Merger.

The \$409.4 million increase in income attributable to Compass was primarily due to a decrease of ceiling test impairments in Fiscal 2016 of \$391.9 million year over year; a gain on sale of oil and gas properties of \$105.6 million in Fiscal 2016; and \$53.6 million gain on disposal of Compass; partially offset by a gain upon gaining control of an equity method investment of \$141.2 million in Fiscal 2015.

Loss from discontinued operations, net of tax for Fiscal 2015 was \$221.5 million compared to income from discontinued operations, net of tax of \$87.3 million for Fiscal 2014. The \$308.8 million increase in loss from discontinued operations, net of tax was primarily driven by an increase attributable to Compass of \$300.9 million due to higher ceiling test impairments in Fiscal 2015 and lower prices of oil, natural gas and natural gas liquids and natural production declines, partially offset by a gain upon gaining control of an equity method investment.

Noncontrolling Interest. The net income attributable to noncontrolling interest reflects the share of the net income of our subsidiaries, which are not wholly-owned, attributable to the noncontrolling interest. Such amount varies in relation to such subsidiary's net income or loss for the period and the percentage interest not owned by HRG.

Preferred Stock Dividends and Accretion. While outstanding, HRG's Preferred Stock dividends and accretion consisted of (i) a cumulative quarterly cash dividend at an annualized rate of 8%; (ii) a quarterly non-cash principal accretion, which accrued under certain circumstances; (iii) accretion of the carrying value of the Preferred Stock, which was discounted by the bifurcated equity conversion feature and issuance costs; and (iv) any gain or loss realized upon the conversion of the Preferred Stock. As a result of the conversion of HRG's Preferred Stock in the third quarter of Fiscal 2014, HRG no longer recognizes preferred dividends and accretion. On May 15, 2014, the Company elected to exercise its option to convert all but one share of the remaining outstanding Preferred Stock into shares of its common stock. Upon converting the outstanding Preferred Stock, the Company recognized a loss of \$43.9 million. As a result of the conversion of the Preferred Stock, the Company ceased recognizing any additional dividends and accretion, and is no longer required to compute the Preferred Stock net asset value ("NAV"). The remaining share of Preferred Stock only provides its holders certain information and governance rights and does not have any dividend or accretion rights.

Consumer Products Segment

Acquisitions

The application of acquisition accounting as a result of business combinations can significantly affect certain assets, liabilities and expenses. During Fiscal 2015 and 2014, Spectrum Brands completed a number of acquisitions as outlined below. There were no acquisitions during Fiscal 2016. See Note 3, "Acquisitions" to our Consolidated Financial Statements included in Part IV - Item 15. Exhibits, Financial Statements and Schedules for further details regarding acquisition activity.

AAG - Spectrum Brands completed the acquisition of AAG, a consumer products company consisting primarily of Armor All branded appearance products, STP branded performance chemicals, and A/C PRO branded do-it-yourself automotive air conditioner recharge products. The results of AAG's operations are included in the Company's Consolidated Statements of Operations, since May 21, 2015.

Table of Contents

Salix - Spectrum Brands completed the acquisition of Salix, a vertically integrated producer and distributor of natural rawhide dog chews, treats and snacks. The results of Salix's operations are included in the Company's Consolidated Statements of Operations since January 16, 2015.

European IAMS and Eukanuba - Spectrum Brands completed the acquisition of Procter & Gamble's European IAMS and Eukanuba, including its brands for dogs and cats. The results of the European IAMS and Eukanuba's operations are included in the Company's Consolidated Statements of Operations since December 31, 2014.

Tell Manufacturing - Spectrum Brands completed the acquisition of Tell, a leading manufacturer and distributor of commercial doors, locks and hardware. The results of Tell's operations are included in the Company's Consolidated Statements of Operations since October 1, 2014.

Liquid Fence - Spectrum Brands completed the acquisition of the Liquid Fence, a producer of animal repellents. The results of Liquid Fence's operations are included in the Company's Consolidated Statements of Operations since January 2, 2014.

Spectrum Brands continually seeks to improve its operational efficiency, match the manufacturing capacity and product costs to market demand and better utilize its manufacturing resources. Spectrum Brands has undertaken various initiatives to reduce manufacturing and operating costs. See Note 20, "Restructuring and Related Charges" to our Consolidated Financial Statements included in Part IV - Item 15. Exhibits, Financial Statements and Schedules for further restructuring and related activity.

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

	Fiscal			Increase / (Decrease)	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
Net consumer and other product sales	\$5,039.7	\$4,690.4	\$4,429.1	\$349.3	\$ 261.3
Cost of consumer products and other goods sold	3,119.8	3,020.0	2,860.3	99.8	159.7
Consumer products segment gross profit	1,919.9	1,670.4	1,568.8	249.5	101.6
Selling, acquisition, operating and general expenses	1,165.0	1,108.5	1,005.2	56.5	103.3
Impairments and bad debt expense	4.7	—	—	4.7	—
Amortization of intangibles	93.9	87.8	81.7	6.1	6.1
Operating income - Consumer Products segment	\$656.3	\$474.1	\$481.9	\$ 182.2	\$ (7.8)

Net consumer and other product sales. Net consumer and other products sales for Fiscal 2016 increased \$349.3 million, or 7.4%, to \$5,039.7 million from \$4,690.4 million for Fiscal 2015. The increase in net consumer product sales was primarily due to the impact of the AAG Acquisition that accounted for \$277.3 million and the growth in organic net sales across the hardware and home improvement products, consumer batteries, home and garden control products, personal care products, global auto care and global pet supplies product lines. These increases were partially offset by the negative impact of foreign exchange of \$126.2 million and a decrease in small appliances product lines. Organic net sales excludes the impact of foreign currency translation and acquisitions, and is considered a non-GAAP measurement (See "Non-GAAP Measures" section below for reconciliation of net sales to organic net sales).

The following table details the principal components of the change in the Consumer Products segment net sales from Fiscal 2015 to Fiscal 2016 (in millions):

	Net Sales
Fiscal 2015 Net consumer and other product sales	\$4,690.4
Acquisition of AAG	277.3
Acquisition of European IAMS and Eukanuba	44.2
Acquisition of Salix	30.3
Increase in consumer batteries	51.2
Increase in hardware and home improvement products	50.2

Increase in home and garden control products	35.1
Increase in global auto care	16.6
Increase in personal care products	12.9
Increase in global pet supplies	1.2
Decrease in small appliances	(43.5)
Foreign currency impact, net	(126.2)
Fiscal 2016 Net consumer and other product sales	\$5,039.7

The consumer batteries organic net sales improved \$51.2 million for Fiscal 2016 compared to Fiscal 2015 primarily attributable to increases in North America of \$6.9 million due to an increase in alkaline battery volumes from branded and private label product; increases in Europe of \$33.8 million primarily from an increase in alkaline battery sales of \$17.5 million driven by

Table of Contents

promotional sales volumes, increased e-commerce and new private label customers; an increase in hearing aid and specialty batteries of \$14.9 million due to higher volumes with new and existing customers coupled with increases in portable power sales; and increases in Latin America of \$9.7 million primarily from hearing aid and specialty batteries.

Hardware and home improvement products organic net sales grew \$50.2 million for Fiscal 2016 compared to Fiscal 2015 mainly attributable to an increase in the security product category of \$40.0 million from an increase in point of sale, new product listings with key retail customers, increases in e-commerce volumes, and market growth with non-retail customers, partially offset by a \$5.5 million decrease in sales with private label customers due to the transition in production of higher-margin branded product; an increase in plumbing products of \$14.7 million from the introduction of new products and promotional sales with key retail customers. These increases were partially offset by a \$3.7 million decrease in hardware products driven by a \$22.8 million decrease for the expiration of a customer tolling agreement and planned exit of unprofitable businesses, mitigated by volume growth at existing retail and market expansion with non-retail customers in North America.

Home and garden control products organic net sales grew \$35.1 million for Fiscal 2016 compared to Fiscal 2015 primarily attributable to increases in repellent products growth of \$15.7 million due to volume growth with key retailers and increased demand in response to the Zika virus; an increase in household insect control products of \$10.3 million from volume growth with key retailers; and an increase in lawn and garden control products of \$9.0 million from an extended outdoor season due to warmer weather and early season retail shipments.

Global auto care organic net sales increased \$16.6 million for Fiscal 2016 compared to Fiscal 2015 primarily driven by increased sales from air conditioning recharge and refrigerant products and the introduction of private label products with a key customer.

Personal care products organic net sales increased \$12.9 million for Fiscal 2016 compared to Fiscal 2015 mainly attributable to increases in Europe of \$13.0 million and Latin America of \$9.5 million from higher volume due to promotional sales and market expansion; offset by decrease in North America of \$13.9 million for softer point of sales in the category, reduction in retail inventory, shifting of holiday sales and competitive pricing.

Global pet supplies net sales increased \$1.2 million primarily due to increases in aquatic sales of \$1.1 million from timing of prior year holiday shipments, partially offset with the exit of lower margin business; while companion animal and pet food sales were consistent to prior year due to increased competition at key retailers, offset by growth with independent pet retailers, timing of promotional activity, and exiting of certain private label business.

Small appliances organic net sales decreased \$43.5 million for Fiscal 2016 compared to Fiscal 2015 primarily attributable to decrease in sales in North America of \$43.8 million due to softer point of sale within the category, reduction in retail inventory, shifting of holiday sales, and competitive pricing.

Net consumer products sales for Fiscal 2015 increased \$261.3 million, or 5.9%, to \$4,690.4 million from \$4,429.1 million for Fiscal 2014. The increase was primarily due to the impact of the acquisitions of AAG, European IAMS and Eukanuba, Salix and Tell that accounted for \$400.0 million and the growth in organic net sales across global pet supplies, small appliances, home and garden control, personal care, and hardware and home improvement product lines. These increases were partially offset by the negative impact of foreign exchange of \$229.8 million and a decrease in consumer battery sales. The following table details the principal components of the change in the Consumer Products segment net sales from the Fiscal 2014 to Fiscal 2015 (in millions):

	Net Sales
Fiscal 2014 Net consumer and other product sales	\$4,429.1
Acquisition of AAG	160.5
Acquisition of European IAMS and Eukanuba	128.7
Acquisition of Salix	71.4
Acquisition of Tell	39.4
Increase in small appliances	51.3
Increase in home and garden control products	42.2
Increase in personal care products	35.5
Increase in hardware and home improvement products	20.7

Decrease in global pet supplies	(15.8)
Decrease in consumer batteries	(42.8)
Foreign currency impact, net	(229.8)
Fiscal 2015 Net consumer and other product sales	\$4,690.4

Small appliances organic net sales increased \$51.3 million for Fiscal 2015 compared to Fiscal 2014 driven by increased sales in North America of \$25.1 million attributable to the success of new product launches; an increase in Europe sales of \$24.9 million from promotional activity; and an increase in Latin America sales of \$2.0 million from new product introductions and volume increases in certain product lines.

Table of Contents

Home and garden control products organic net sales grew \$42.2 million for Fiscal 2015 compared to Fiscal 2014 attributable to increases in repellent products of \$16.2 million, lawn and garden control products of \$13.1 million, and household insect control products of \$12.8 million. The sales increase for all categories within home and garden was a result of distribution gains, strong point of sale activity driving replenishment orders at existing customer and market share gains on certain brands.

Personal care products organic net sales increased \$35.5 million for Fiscal 2015 compared to Fiscal 2014 mainly driven by increased sales in North America, Europe and Latin America of \$11.6 million, \$16.6 million and \$5.3 million, respectively. The North American sales increase was primarily a result of product display location changes at a major customer, promotional activity and continued growth through the e-commerce channel. The European sales increase was due to a combination of sales from new products and continued expansion into Eastern European markets. The Latin American sales increase was primarily attributable to growth in Mexico, new customers and effective promotional sales within the region.

Hardware and home improvement products organic net sales increased \$20.7 million for Fiscal 2015 compared to Fiscal 2014 driven by an increase in North America as a result of higher domestic security and plumbing sales from retailers due to customer gains and from non-retailers through pricing and market growth. The increase was partially offset by a \$14.2 million decrease in sales in the Asia-Pacific region driven by the exit of lower margin products and the expiration of a customer tolling agreement.

Global pet supplies organic net sales decreased \$15.8 million for Fiscal 2015 compared to Fiscal 2014 primarily due to decreases in aquatic sales of \$12.8 million.

Consumer batteries organic net sales decreased \$42.8 million for Fiscal 2015 compared to Fiscal 2014 primarily driven by a \$75.8 million decrease in sales in North America due to lower alkaline batteries sales of \$54.6 million from continued competitor discounting coupled with a large retail customer's bankruptcy, and a decrease in specialty batteries and lights from distribution loss to a competitor at a major retailer and timing of holiday sales; partially offset by an increase in Europe sales of \$29.4 million from increased alkaline batteries sales of \$24.4 million from increased volumes with new and existing retailers and private label customers, increased volumes in specialty and hearing aid batteries, plus increased lights from new products and promotional activity.

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

Product line net sales	Fiscal			Increase (Decrease)	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
Hardware and home improvement products	\$1,241.0	\$1,205.5	\$1,166.0	\$35.5	\$39.5
Consumer batteries	840.7	829.5	957.8	11.2	(128.3)
Global pet supplies	825.7	758.2	600.5	67.5	157.7
Small appliances	656.0	734.6	730.8	(78.6)	3.8
Personal care products	513.6	528.1	542.1	(14.5)	(14.0)
Home and garden control products	509.0	474.0	431.9	35.0	42.1
Global auto care	453.7	160.5	—	293.2	160.5
Total net sales to external customers	\$5,039.7	\$4,690.4	\$4,429.1	\$349.3	\$261.3

Cost of consumer products and other goods sold / Consumer products segment gross profit. Consumer products segment gross profit, representing net consumer products sales minus consumer products cost of goods sold, for Fiscal 2016 was \$1,919.9 million compared to \$1,670.4 million for Fiscal 2015. Gross profit margin for Fiscal 2016 increased to 38.1% from 35.6% in Fiscal 2015 primarily driven by the AAG Acquisition, and a shift towards higher margin product sales and continuing cost improvements across segments.

Consumer products segment gross profit for Fiscal 2015 was \$1,670.4 million compared to \$1,568.8 million for Fiscal 2014. The increase in gross profit was primarily attributable to higher margin sales and continuing cost improvements. Gross profit margin for Fiscal 2015 increased to 35.6% from 35.4% in Fiscal 2014. The increase in gross profit margin was due to a shift towards higher margin product sales and cost improvement initiatives.

Selling, acquisition, operating and general expenses. Selling, acquisition, operating and general expenses increased by \$56.5 million, or 5.1%, to \$1,165.0 million for Fiscal 2016, from \$1,108.5 million for Fiscal 2015 primarily attributable to an increase of \$83.3 million due to increased net sales, prior year acquisitions, increased share based compensation of \$16.8 million and increased research and development costs of \$7.4 million; partially offset by a decrease in acquisition and integration related charges of \$22.1 million and decreased restructuring and related charges of \$11.9 million.

Selling, acquisition, operating and general expenses increased by \$103.3 million, or 10.3%, to \$1,108.5 million for Fiscal 2015 from \$1,005.2 million for Fiscal 2014 primarily attributable to an increase of \$53.6 million in selling and general and administrative expenses as a result of acquisition activity and increased net sales, increased acquisition and integration costs of \$38.7 million and increased restructuring and related charges of \$7.4 million for new and continuing restructuring initiatives.

Acquisition and integration related charges include, but are not limited to, transaction costs such as banking, legal and accounting professional fees directly related to acquisitions, termination and related costs for transitional and certain other employees,

Table of Contents

integration related professional fees and other post business combination related expenses associated with our acquisitions.

Impairments and bad debt expense. For Fiscal 2016, the Consumer Products segment recognized \$4.7 million impairment on indefinite life intangible asset due to the reduction in value over certain tradenames in response to changes in management's strategy. There was no impairment loss on indefinite-lived intangible assets for Fiscal 2015 or 2014.

Amortization of intangibles. For Fiscal 2016, amortization of intangibles increased \$6.1 million, or 6.9%, to \$93.9 million from \$87.8 million for Fiscal 2015. For Fiscal 2015, amortization of intangibles increased \$6.1 million, or 7.5%, to \$87.8 million from \$81.7 million for Fiscal 2014. The increases were as a result of the additional definite lived intangible assets acquired during Fiscal 2015 and 2014.

Insurance Segment

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

	Fiscal			Increase / (Decrease)	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
Insurance segment revenues	\$150.4	\$(98.8)	\$144.3	\$249.2	\$(243.1)
Benefits and other changes in policy reserves	153.2	(43.5)	92.8	196.7	(136.3)
Selling, acquisition, operating and general expenses	9.6	13.4	11.4	(3.8)	2.0
Total Insurance segment operating costs and expenses	162.8	(30.1)	104.2	192.9	(134.3)
Operating (loss) income - Insurance segment	\$(12.4)	\$(68.7)	\$40.1	\$56.3	\$(108.8)

For segment reporting purposes, at the inception date of the reinsurance transactions, Front Street elected to apply the fair value option to account for its funds withheld receivables, non-funds withheld assets and future policyholder benefits reserves related to its assumed reinsurance. For consolidated reporting, the results from Front Street's assumed reinsurance business with FGL is reported on FGL's historical basis. Upon completion of the FGL Merger, our consolidated results will reflect all reinsurance business on the fair value option.

Insurance segment revenues. For Fiscal 2016, Insurance segment revenues increased \$249.2 million to \$150.4 million from a loss of \$98.8 million for Fiscal 2015. The increase in Insurance segment revenues was primarily driven by an increase in the fair value of the underlying fixed maturity debt securities included in the funds withheld receivables during Fiscal 2016 and such increase was due to market conditions with decreasing risk-free rates and tightening credit spreads resulting in generally higher valuations of fixed maturity debt securities. In addition, the Insurance segment recognized losses related to credit impairment losses due to intercompany investments of \$11.3 million and \$73.4 million in Fiscal 2016 and Fiscal 2015, respectively, and asset-based loan participations of \$5.1 million that were recorded in Fiscal 2015.

For Fiscal 2015, Insurance segment revenues decreased \$243.1 million to a loss of \$98.8 million compared to a gain of \$144.3 million for Fiscal 2014. Such decrease was primarily driven by a decrease in the fair value of the underlying fixed maturity debt securities included in the funds withheld receivables during Fiscal 2015 due to market conditions with increasing risk-free rates and widening credit spreads resulting in generally lower valuations of fixed maturity debt securities. In addition, the Insurance segment recognized \$78.5 million of losses related to credit impairment losses related to intercompany investments and asset-based loan participations that were recorded in Fiscal 2015.

Benefits and other changes in policy reserves. For Fiscal 2016, benefits and other changes in policy reserves increased \$196.7 million to an expense of \$153.2 million from an income of \$43.5 million for Fiscal 2015. The increase was primarily due to a decrease in the insurance liability discount rate. In addition, at December 31, 2015, Front Street began discounting the liability cash flows by using the market yields on the underlying asset backing the liabilities less the non-performance spread to reflect uncertainty. In prior periods, the discount rate was based on risk-free rates

plus non-performance spreads less a risk margin.

For Fiscal 2015, benefits and other changes in policy reserves decreased \$136.3 million to an income of \$43.5 million from an expense of \$92.8 million for Fiscal 2014. The decrease was primarily due to the increase in the insurance liability discount rate for Fiscal 2015, as discussed above.

Selling, acquisition, operating and general expenses. Selling, acquisition, operating and general expenses of the Insurance segment decreased to \$9.6 million for Fiscal 2016 as compared to \$13.4 million for Fiscal 2015 mainly driven by legal and actuarial consulting costs related to new reinsurance treaties in Fiscal 2015. There were no new reinsurance treaties entered into during Fiscal 2016.

Selling, acquisition, operating and general expenses of the Insurance segment increased slightly to \$13.4 million for Fiscal 2015 as compared to \$11.4 million for Fiscal 2014 primarily due to costs associated with new reinsurance treaties.

Table of Contents

Corporate and Other Segment

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

	Fiscal			Increase / (Decrease)	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
Corporate and Other segment revenues	\$8.9	\$63.4	\$53.5	\$(54.5)	\$9.9
Cost of consumer products and other goods sold	—	30.9	15.3	(30.9)	15.6
Selling, acquisition, operating and general expenses	69.4	181.1	163.0	(111.7)	18.1
Impairments and bad debt expense	23.5	148.1	2.3	(124.6)	145.8
Total Corporate and Other segment operating costs and expenses	92.9	360.1	180.6	(267.2)	179.5
Operating loss - Corporate and Other segment	\$(84.0)	\$(296.7)	\$(127.1)	\$212.7	\$(169.6)

Corporate and Other segment revenues. Presented below is a table that summarizes the Corporate and Other segment revenues by product line and compares the amount of the change between the fiscal periods (in millions):

	Fiscal			Increase / (Decrease)	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
Corporate and Other segment revenues	\$8.9	\$22.2	\$34.2	\$(13.3)	\$(12.0)
Asset management	—	42.7	20.1	(42.7)	22.6
Women's apparel and related products	—	(1.5)	(0.8)	1.5	(0.7)
Inter-company eliminations	\$8.9	\$63.4	\$53.5	\$(54.5)	\$9.9

Asset Management

Revenues decreased \$13.3 million to \$8.9 million from \$22.2 million for Fiscal 2015, primarily driven by lower revenue generated by Salus as a result of the continued run-off of the remaining outstanding amount of Salus loans primarily attributable to paydowns on existing loans and a lack of new loan originations by Salus.

Revenues decreased \$12.0 million to \$22.2 million from \$34.2 million for Fiscal 2014, primarily due to lower interest revenue on Salus' retained interest in the RadioShack loan for Fiscal 2015 as compared to Fiscal 2014, as well as the continued run-off and paydowns of Salus loans as discussed above. Partially offsetting these decreases was an increase in asset management revenues from CorAmerica and EIC driven by loan origination.

Women's apparel and related products

Revenues from Women's apparel and related products reported within the "Net consumer and other product sales" caption for Fiscal 2015 and 2014 represent sales from FOH. FOH was deconsolidated in the third quarter of Fiscal 2015 following the declaration of bankruptcy by FOHG, FOH and their subsidiaries in April 2015. Following the completion of the bankruptcy of FOHG, FOH and their subsidiaries, such entities ceased to be subsidiaries of HRG.

Cost of consumer products and other goods sold. Cost of consumer products and other goods sold for Fiscal 2015 and 2014 represents FOH cost of consumer products and other goods sold for Fiscal 2015 and 2014.

Selling, acquisition, operating and general expenses. Presented below is a table that summarizes the Selling, acquisition, operating and general expenses of our Corporate and Other segment by product line, and compares the amount of the change between the fiscal periods (in millions):

	Fiscal			Increase / (Decrease)	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
Selling, acquisition, operating and general expenses					

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Corporate (a)	\$52.2	\$103.9	\$116.4	\$(51.7)	\$(12.5)
Asset management	17.2	37.4	31.2	(20.2)	6.2
Women's apparel and related products	—	39.8	15.4	(39.8)	24.4
Selling, acquisition, operating and general expenses - Corporate and Other segment	\$69.4	\$181.1	\$163.0	\$(111.7)	\$18.1

(a) Fiscal 2016, 2015 and 2014 include \$0.5 million, \$1.2 million and \$0.5 million, respectively, of selling, acquisition, operating and general expenses previously reported under the Insurance and Energy segments.

Table of Contents

Corporate

Selling, acquisition, operating and general expenses decreased \$51.7 million to \$52.2 million for Fiscal 2016 from \$103.9 million for Fiscal 2015. The decrease was primarily due to the absence in Fiscal 2016 of \$34.1 million of severance costs associated with the 2014 CEO Departure and other HRG employee departures; a decrease of \$5.2 million in bonus and stock based compensation; and a decrease in overall overhead cost for Fiscal 2016 when compared to Fiscal 2015. The lower compensation expense was driven by fewer participants in HRG’s bonus pool, which was partially offset by higher performance-based bonuses for the remaining participants.

Selling, acquisition, operating and general expenses decreased \$12.5 million to \$103.9 million for Fiscal 2015 from \$116.4 million for Fiscal 2014. The decrease was primarily due to (i) a decrease in bonus expense of \$31.7 million; (ii) the non-recurrence of a \$6.1 million contingency reserve recorded in Fiscal 2014; (iii) a \$2.9 million decrease in acquisition and integrations costs; and (iv) a \$2.8 million reimbursement of legal fees as part of the settlement with OMGUK; partially offset by the severance costs associated with the 2014 CEO Departure and other HRG employee departures of \$34.1 million.

HRG’s Compensation Committee established annual salary, cash and equity-based bonus arrangements for certain of HRG’s corporate employees. In determining the bonus arrangements for HRG employees, HRG has considered the change in the value of its net asset value in accordance with the criteria established by HRG’s Compensation Committee (“Compensation NAV”). In Fiscal 2016, underlying performance of the Compensation NAV increased 24.8% as compared to a decline of 3.8% in Fiscal 2015 and an increase of 41.5% in Fiscal 2014.

Asset Management

Selling, acquisition, operating and general expenses decreased \$20.2 million to \$17.2 million for Fiscal 2016 from \$37.4 million for Fiscal 2015. The decrease in selling, acquisition, operating and general expenses reflect the continued run-off of the Salus portfolio, coupled with the effect of the Company’s sale of its ownership interest in CorAmerica and the wind-down of the operations of EIC.

Selling, acquisition, operating and general expenses increased \$6.2 million to \$37.4 million for Fiscal 2015 from \$31.2 million for Fiscal 2014, primarily due to increased legal and consulting fees.

Women’s apparel and related products

Selling, acquisition, operating and general expenses increased \$24.4 million to \$39.8 million for Fiscal 2015 from \$15.4 million in Fiscal 2014 primarily due to costs related to the bankruptcy filing of FOHG, FOH and their subsidiaries during Fiscal 2015.

Impairments and bad debt expense. Impairments and bad debt expense for Fiscal 2016 were \$23.5 million due to \$12.8 million net increase to the provision for credit losses on Salus’ asset-based loan portfolio and goodwill impairment of \$10.7 million at CorAmerica.

Impairments and bad debt expense for Fiscal 2015 were \$148.1 million primarily due to impairments of \$60.2 million to goodwill and intangible assets due to a change in view of the strategic direction of FOH following the 2014 CEO Departure during the first quarter of Fiscal 2015, which triggered goodwill and intangibles impairment tests. In addition, the Company recognized \$51.1 million charge-off on the loan to RadioShack, a former borrower of Salus, as well as an increase in the provision for credit losses of \$19.2 million related to the RadioShack loan and \$23.2 million related to other loans.

Non-GAAP Measurements

Adjusted earnings before interest, taxes, depreciation and amortization (“EBITDA”) is a non-GAAP financial measure used in our Consumer Products segment and one of the measures used for determining Spectrum Brands’ debt covenant compliance. We believe that certain financial measures that are not prescribed by generally accepted accounting principles (“GAAP”) provides useful information to investors because it reflects ongoing operating performance and trends, excluding certain non-cash based expenses and/or non-recurring items during each of the comparable periods and facilitates comparisons between peer companies since interest, taxes, depreciation and amortization can differ greatly between organizations as a result of differing capital structures and tax strategies. EBITDA is calculated by excluding the Company’s income tax expense, interest expense, depreciation expense and amortization expense (from intangible assets) from net income. Adjusted EBITDA further excludes: (1) stock based

compensation expense as it is a non-cash based compensation cost; (2) acquisition and integration costs that consist of transaction costs from acquisition transactions during the period or subsequent integration related project costs directly associated with the acquired business; (3) restructuring and related costs, which consist of project costs associated with restructuring initiatives; (4) non-cash purchase accounting inventory adjustments recognized in earnings subsequent to an acquisition; (5) non-cash asset impairments or write-offs realized; (6) and other adjustments. During Fiscal 2016, other adjustments consisted of costs associated with the onboarding of a key executive and the involuntary transfer of inventory. During Fiscal 2015, other adjustments consisted of costs associated with the exiting of a key executive, coupled with onboarding a key executive, plus the Company recognized a non-recurring adjustment for the devaluation of cash and cash equivalents denominated in Venezuelan currency.

Table of Contents

While management believes that non-GAAP measurements are useful supplemental information, such adjusted results are not intended to replace the Company's GAAP financial results. EBITDA and Adjusted EBITDA are measures that are not prescribed by U.S. GAAP. EBITDA and Adjusted EBITDA exclude changes in working capital, capital expenditures and other items that are set forth on a cash flow statement presentation of a company's operating, investing and financing activities. As such, we encourage investors not to use these measures as substitutes for the determination of net income, net cash provided by operating activities or other similar GAAP measures.

Adjusted EBITDA — Consumer Products

The table below shows the adjustments made to the reported net income of the Consumer Products segment to calculate its Adjusted EBITDA (in millions):

	Fiscal		
	2016	2015	2014
Reconciliation to reported net income:			
Reported net income - Consumer Products segment	\$357.7	\$149.4	\$214.5
Interest expense	250.0	271.9	202.1
Income tax expense	40.0	43.9	59.0
Depreciation of properties	89.1	82.2	76.0
Amortization of intangibles	93.9	87.8	81.7
EBITDA - Consumer Products segment	830.7	635.2	633.3
Stock-based compensation	64.4	47.6	46.8
Acquisition and integration related charges	36.7	58.8	20.1
Restructuring and related charges	15.2	28.7	22.9
Write-off from impairment of intangible assets	4.7	—	—
Purchase accounting inventory adjustment	—	21.7	—
Venezuela devaluation	—	2.5	—
Other	1.1	6.1	1.3
Adjusted EBITDA - Consumer Products segment	\$952.8	\$800.6	\$724.4

Our Consumer Products segment's Adjusted EBITDA increased \$152.2 million, or 19.0%, to \$952.8 million in Fiscal 2016 as compared to \$800.6 million for Fiscal 2015 primarily driven by a (i) \$106.1 million increase attributable to AAG's operations; (ii) the improved profitability in hardware and home improvement products and home and garden control products due to higher sales, improved product mix and cost improvements that account for \$29.9 million of the increase in Adjusted EBITDA; and (iii) an increase of \$15.6 million in the global pet supplies product line primarily driven by the acquisitions of Salix and European IAMS and Eukanuba. Adjusted EBITDA margin represented 18.9% of sales as compared to 17.1% in Fiscal 2015.

Our Consumer Products segment's Adjusted EBITDA increased \$76.2 million, or 10.5%, to \$800.6 million for Fiscal 2015 from \$724.4 million for Fiscal 2014 driven by \$47.3 million attributable to AAG's operations coupled with increased profitability in the home and garden control products as a result of an increase in net sales to external customers and product cost improvements initiatives. Adjusted EBITDA margin represented 17.1% of sales as compared to 16.4% in Fiscal 2014.

Organic Net Sales — Consumer Products

Our Consumer Products segment results contain financial information regarding organic net sales, which we define as net sales excluding the effect of changes in foreign currency exchange rates and impact from acquisitions. We believe this non-GAAP measure provides useful information to investors because it reflects regional and operating performance from our Consumer Products segment's activities without the effect of changes in currency exchange rate and/or acquisitions. The Consumer Products segment uses organic net sales as one measure to monitor and evaluate their regional and segment performance. Organic growth is calculated by comparing organic net sales to net sales in the prior year. The effect of changes in currency exchange rates is determined by translating the period's net sales using the currency exchange rates that were in effect during the prior comparative period. Net sales are attributed to the geographic regions based on the country of destination. We exclude net sales from acquired businesses in the current year for which there are no comparable sales in the prior period.

Table of Contents

The following is a reconciliation of reported net sales to organic net sales for Fiscal 2016 compared to net sales for Fiscal 2015 and for Fiscal 2015 compared to Fiscal 2014:

Fiscal 2016	Net Sales	Net Sales			Organic Net Sales	Net Sales September 30, 2015	\$ Variance	% Variance	
		Effect of changes in Currency	Excluding Effect of Changes in Currency	Effect of Acquisitions					
Hardware and home improvement products	\$1,241.0	\$ 14.7	\$ 1,255.7	\$ —	\$ 1,255.7	\$ 1,205.5	\$ 50.2	4.2	%
Consumer batteries	840.7	40.0	880.7	—	880.7	829.5	51.2	6.2	%
Global pet supplies	825.7	8.2	833.9	(74.5)	759.4	758.2	1.2	0.2	%
Small appliances	656.0	35.1	691.1	—	691.1	734.6	(43.5)	(5.9)	%
Personal care products	513.6	27.4	541.0	—	541.0	528.1	12.9	2.4	%
Home and garden control products	509.0	0.1	509.1	—	509.1	474.0	35.1	7.4	%
Global auto care	453.7	0.7	454.4	(277.3)	177.1	160.5	16.6	10.3	%
Total	\$5,039.7	\$ 126.2	\$ 5,165.9	\$ (351.8)	\$ 4,814.1	\$ 4,690.4	\$ 123.7	2.6	%

Fiscal 2015	Net Sales	Net Sales			Organic Net Sales	Net Sales September 30, 2014	Variance	% Variance	
		Effect of changes in Currency	Excluding Effect of Changes in Currency	Effect of Acquisitions					
Hardware and home improvement products	\$ 1,205.5	\$ 20.6	\$ 1,226.1	\$ (39.4)	\$ 1,186.7	\$ 1,166.0	\$ 20.7	1.8	%
Consumer batteries	829.5	85.5	915.0	—	915.0	957.8	(42.8)	(4.5)	%
Global pet supplies	758.2	26.6	784.8	(200.1)	584.7	600.5	(15.8)	(2.6)	%
Small appliances	734.6	47.5	782.1	—	782.1	730.8	51.3	7.0	%
Personal care products	528.1	49.5	577.6	—	577.6	542.1	35.5	6.5	%
Home and garden control products	474.0	0.1	474.1	—	474.1	431.9	42.2	9.8	%
Global auto care	160.5	—	160.5	(160.5)	—	—	—	n/a	
Total	\$4,690.4	\$ 229.8	\$ 4,920.2	\$ (400.0)	\$ 4,520.2	\$ 4,429.1	\$ 91.1	2.1	%

Table of Contents

Liquidity and Capital Resources

HRG

HRG is a holding company and its liquidity needs are primarily for interest payments on the 7.875% Senior Secured Notes due 2019 (the “7.875% Notes”) and the 7.75% Senior Notes due 2022 (the “7.75% Notes”) (approximately \$137.1 million per year), professional fees (including advisory services, legal and accounting fees), executive bonuses, salaries and benefits, office rent, pension expense, insurance costs and funding certain requirements of our insurance and other subsidiaries. HRG’s current source of liquidity is its cash, cash equivalents and investments, and distributions from our subsidiaries.

During Fiscal 2016, we received cash dividends of \$63.5 million from our subsidiaries, including \$50.9 million, \$12.2 million and \$0.4 million from Spectrum Brands, FGL and CorAmerica, respectively. During Fiscal 2017, we expect to receive approximately \$55.1 million of dividends from our subsidiaries’ distributable earnings.

The ability of HRG’s subsidiaries to generate sufficient net income and cash flows to make upstream cash distributions is subject to numerous factors, including restrictions contained in such subsidiary’s financing agreements, availability of sufficient funds in such subsidiary, applicable state laws and regulatory restrictions and the approval of such payment by such subsidiary’s board of directors, which must consider various factors, including general economic and business conditions, tax considerations, strategic plans, financial results and condition, expansion plans, any contractual, legal or regulatory restrictions on the payment of dividends, and such other factors such subsidiary’s board of directors considers relevant including, in the case of FGL, target capital ratios and ratio levels anticipated by regulatory agencies to maintain or improve current ratings. In addition, while the FGL Merger Agreement permits FGL to pay out a regular quarterly cash dividend on its common stock in an amount not in excess of \$0.065 per share, per quarter, FGL may not pay any other dividends without the consent of Anbang. In addition, if the FGL Merger is consummated, while we will receive the proceeds from the sale of our shares of FGL common stock, we will no longer receive dividends from FGL. Furthermore, one or more of our subsidiaries may issue, repurchase, retire or refinance, as applicable, their debt and/or equity securities for a variety of purposes, including in order to, in the future, grow their business, pursue acquisition activities and/or manage their liquidity needs. Any such issuance may limit such subsidiary’s ability to make upstream cash distributions.

HRG’s liquidity may also be impacted by the capital needs of HRG’s subsidiaries and the ability of our subsidiaries to remain in compliance with the covenants governing their indebtedness. Such entities may require additional capital to acquire other business, maintain or grow their businesses, make payments on, or remain in compliance with the covenants governing their indebtedness, and/or make upstream cash distributions to HRG. For example, Front Street has required, and may in the future require, additional capital in order to operate its business, engage in reinsurance transactions, and/or to meet regulatory or other applicable capital requirements. Similarly, Salus has required, and may in the future require, additional capital in order to operate its business and execute on its strategy to collect its existing loans and wind-down its business. HGI Energy has required, and may in the future require, additional capital to conduct its operations and pay interest on the Affiliate Notes (as defined below).

We expect our cash, cash equivalents and investments to continue to be a source of liquidity except to the extent they may be used to fund the capital needs of our subsidiaries. At September 30, 2016, HRG’s corporate cash, cash equivalents and investments were \$172.0 million.

We expect that dividends from our subsidiaries along with our cash on hand, cash equivalents and investments to exceed our expected cash requirements and to satisfy our interest obligations, and general administrative expenses for at least the next twelve months. Depending on a variety of factors, including general state of capital markets, operating needs or business strategies, HRG and/or one or more of its subsidiaries may or may be required to raise additional capital through the issuance of equity, debt, or both. There is no assurance, however, that such capital will be available at that time, in the amounts necessary or on terms satisfactory to HRG. We seek to service any such new additional debt through increasing the dividends we receive or disposing of certain of our holdings, but there can be no assurance that we will be able to do so. We may also seek to repurchase, retire or refinance, as applicable, all or a portion of, our 7.875% Notes, the 7.75% Notes, or common stock through open market purchases, tender offers, negotiated transactions or otherwise.

HGI Energy

HGI Energy has indebtedness of an aggregate \$92.0 million under notes issued by HGI Energy for which Front Street, a wholly-owned subsidiary of HRG bears the economic risk (the “Affiliate Notes”). The Affiliate Notes mature on August 22, 2017 and carries interest of 0.71% payable semi-annually. HGI Energy’s assets at September 30, 2016 included \$116.0 million of marketable securities owned by HGI Energy. HGI Energy has required, and may in the future require, additional capital to conduct its operations and pay interest on the Affiliate Notes.

Spectrum Brands

Spectrum Brands expects to fund its cash requirements, including capital expenditures, dividend, interest and principal payments due in Fiscal 2017 through a combination of cash on hand (\$275.3 million at September 30, 2016), cash flows from operations and \$466.2 million available borrowings under the asset based lending revolving credit facility (the “Revolver Facility”). Spectrum Brands expects its capital expenditures for Fiscal 2017 will be approximately \$110.0 million to \$120.0 million. Going

Table of Contents

forward, its ability to satisfy financial and other covenants in its senior credit agreements and senior unsecured indentures and to make scheduled payments or prepayments on its debt and other financial obligations will depend on its future financial and operating performance. There can be no assurances that its business will generate sufficient cash flows from operations or that future borrowings under Spectrum Brands' debt agreements, including the Revolver Facility, will be available in an amount sufficient to satisfy its debt maturities or to fund its other liquidity needs.

Front Street

Front Street's liquidity needs consist primarily of supporting the capitalization of its reinsurance business. As of September 30, 2016, Front Street maintained regulatory capital in excess of its minimum commitments. Front Street's reinsurance obligations are collateralized by the assets in the funds-withheld accounts of ceding companies. Front Street does not expect to need additional liquidity in the near-term, but there can be no assurance that its capitalization or the funds-withheld assets will be sufficient in the future to meet applicable regulatory requirements or its reinsurance obligations in the event of impairments in the funds-withheld assets.

Funds withheld receivables

Front Street Cayman has entered into various reinsurance agreements on a funds withheld basis, meaning that funds are withheld by the ceding company, from the coinsurance premium owed to Front Street Cayman as collateral for Front Street Cayman's payment obligations. Accordingly, the collateral assets remain under the ultimate ownership for the ceding company. Front Street Cayman's investment portfolio underlying the funds withheld assets includes fixed maturities and short-term investments that are recorded at fair value and other invested assets. The carrying values of the investments underlying the funds withheld receivables at September 30, 2016 and 2015 were as follows (in millions):

Asset Class	September 30, 2016		September 30, 2015	
	Fair Value	Percent	Fair Value	Percent
Corporates	\$1,033.3	67.3 %	\$1,083.0	66.1 %
Asset/Mortgage-backed securities	350.4	22.8 %	395.0	24.1 %
Government bonds	69.9	4.6 %	8.4	0.5 %
Municipals	66.4	4.3 %	101.0	6.2 %
Preferred stock	8.2	0.5 %	39.3	2.4 %
Agency bonds	6.9	0.5 %	11.4	0.7 %
Total fixed maturity securities included in funds withheld receivables	1,535.1	100.0 %	1,638.1	100.0 %
Accrued interest	17.8		20.5	
Net cash receivables	77.7		41.1	
Policy loans and other	19.8		10.4	
Total funds withheld receivables	\$1,650.4		\$1,710.1	

The decrease in the fair value of the funds withheld receivables at September 30, 2016 compared to 2015 was primarily related to the continued run-off of the closed block reinsurance treaties and the recapture notice of a reinsurance agreement effective October 31, 2015, between third parties, coupled with timing of trade settlements; partially offset by increases due to new business assumed, as well as increase in the fair value of the underlying fixed maturity debt securities included in the funds withheld receivables during Fiscal 2016 due to market conditions with decreasing risk-free rates and tightening credit spreads resulting in generally higher valuations of fixed maturity debt securities.

The table below summarizes Front Street's funds withheld receivables rated by established nationally recognized statistical rating organizations in percentage terms at September 30, 2016 and 2015 (by credit rating, in millions):

Rating	September 30, 2016		September 30, 2015	
	Fair Value	Percent	Fair Value	Percent

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AAA	\$109.9	7.2	%	\$113.8	6.9	%
AA	205.9	13.4	%	176.4	10.8	%
A	263.7	17.2	%	267.5	16.3	%
BBB	502.1	32.7	%	563.7	34.4	%
BB	187.6	12.2	%	202.3	12.4	%
B and below	256.8	16.7	%	295.2	18.0	%
Not rated	9.1	0.6	%	19.2	1.2	%
Total	\$1,535.1	100.0	%	\$1,638.1	100.0	%

96

Table of Contents

See Note 8, Funds Withheld Receivables, to our Consolidated Financial Statements included in Part IV - Item 15. Exhibits, Financial Statements and Schedules for additional information regarding the funds withheld receivables portfolio.

Salus

Salus expects that its available cash on hand will be sufficient for it to fund its operations going forward, which consists principally of collecting outstanding loans and winding down its business. However, there can be no assurance that unexpected losses and contingencies, such as larger than expected litigation expenses, would not require additional capital to conduct its operations.

The Company's portfolio of asset-based loans receivable, originated by Salus and its co-lender Front Street, are included in "Other assets" in the accompanying Consolidated Balance Sheets as of September 30, 2016 and 2015. The asset-based loans participations by FGL are included in "Assets of business held for sale" in the accompanying Consolidated Balance Sheets as of September 30, 2016 and 2015. See Note 13, Other Assets, to our Consolidated Financial Statements included in Part IV - Item 15. Exhibits, Financial Statements and Schedules for the composition of the asset-based loans portfolio by industry sector, as well as discussion and information regarding the credit quality indicators.

FGL (Business Held for Sale)

FGL's principal source of liquidity is dividends from FGH, whose liquidity is, in turn, principally based on dividends from its operating insurance company subsidiaries, Fidelity & Guaranty Life Insurance Company ("FGL Insurance") and Fidelity & Guaranty Life Insurance Company of New York ("FGL NY Insurance"). FGL Insurance's and FGL NY Insurance's primary sources of liquidity are cash flow from insurance premiums and fees and investment income. FGL's principal use of cash is to fund payments under their annuity and universal life products. FGL Insurance's and FGL NY Insurance's cash flows associated with collateral received from and posted with counterparties change as the market value of the underlying derivative contract changes. As the value of a derivative asset declines (or increases), the collateral required to be posted by our counterparties would also decline (or increase). Likewise, when the value of a derivative liability declines (or increases), the collateral we are required to post to our counterparties would also decline (or increase). FGH also maintains lines of credit and long-term debt financing, which provide liquidity but also require debt service.

FGL's principal use of liquidity is to pay dividends to its stockholders, including HRG. Its ability to pay dividends is limited by regulatory and capital adequacy considerations and contractual limitations, including the FGL Merger Agreement, and other limitations applicable to its subsidiaries. See Part I, Item 1A. "Risk Factors-Risks Related to FGL's and Front Street's Businesses - FGL's subsidiaries may not be able to generate sufficient cash to service all of their obligations and may be forced to take other actions to satisfy their obligations, which may not be successful" and "FGL is a holding company with no operations of its own; its ability to pay dividends on its stock will depend on the ability of its subsidiaries to pay dividends to FGL, which may be restricted by law. Front Street is a parent company with limited business operations of its own and conducts most of its business operations through its subsidiaries and its primary source of cash is and will be distributions from its subsidiaries."

Discussion of Consolidated Cash Flows**Summary of Consolidated Cash Flows**

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

	Fiscal			Increase / (Decrease)	
	2016	2015	2014	2016 compared to 2015	2015 compared to 2014
Cash provided by (used in) continuing activities:					
Operating activities	\$558.2	\$300.3	\$476.9	\$257.9	\$(176.6)
Investing activities	145.9	(1,047.6)	(269.8)	1,193.5	(777.8)

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Financing activities	(866.6)	709.4	(147.0)	(1,576.0)	856.4
Effect of exchange rate changes on cash and cash equivalents	(1.4)	(29.7)	(8.3)	28.3	(21.4)
Net change in cash and cash equivalents in continuing operations	\$(163.9)	\$(67.6)	\$51.8	\$(96.3)	\$(119.4)

Operating Activities

Cash provided by operating activities totaled \$558.2 million for Fiscal 2016 as compared to \$300.3 million for Fiscal 2015. The \$257.9 million improvement in cash provided by operating activities was the result of a (i) \$170.1 million increase in cash provided by the Consumer Products segment; (ii) \$38.9 million decrease in cash used by the Insurance segment and (iii) \$72.8 million increase in cash provided from net withdrawals from contractholder accounts related to the cession between Front Street and FGL, which is reflected in operating cash for the Insurance segment; partially offset by a \$10.0 million decrease in dividends received from Compass, which was sold in Fiscal 2016 and is now classified as discontinued operations; and a \$2.6 million increase in cash used by the Corporate and Other segment.

Table of Contents

The \$170.1 million increase in cash provided by operating activities in the Consumer Products segment was primarily due to the (i) incremental cash generated from the segment operations of \$166.7 million due to growth in net sales, acquisitions and cost management initiatives, including cash contributed through working capital primarily from decreases of receivables and inventory through working capital management initiatives; (ii) a decrease in cash paid for interest of \$12.0 million, excluding a non-recurring tender premium of \$15.6 million for the redemption of 6.375% Note, from a decrease in annualized interest costs; (iii) a decrease in cash paid for income taxes, which was partially offset by (a) an increase in cash paid towards restructuring and acquisition and integration related activities of \$7.1 million towards integration of previously acquired businesses; and (b) increased payments towards corporate expenditures of \$3.9 million for increased compensation costs and investment in shared services.

The \$38.9 million decrease in cash used by the Insurance segment was primarily due to lower payments made for net reinsurance settlements related to the funds withheld accounts in Fiscal 2016 as compared to Fiscal 2015. The reduction in net payments for net reinsurance settlements to ceding companies in Fiscal 2016 was as a result of lower impairments within the associated funds withheld accounts.

Cash provided by operating activities totaled \$300.3 million for Fiscal 2015 compared to \$476.9 million for Fiscal 2014. The \$176.6 million decline was the result of (i) \$140.5 million increase in cash used in our Insurance segment (consisting primarily off a \$73.3 million decrease in cash provided for net withdrawals from contractholder accounts related to the cession between Front Street and FGL, which is reflected in operating cash for the Insurance segment; and an \$89.7 million increase in cash used for reinsurance settlements with third parties and discontinued operations, partially offset by a \$22.5 million decrease in income taxes paid); (ii) a \$30.0 million decrease in dividends received from businesses classified as discontinued operations; and (iii) a \$15.4 million increase in cash used by the Corporate and Other segment; offset by a \$12.2 million increase in cash provided by the Consumer Products segment.

Investing Activities

Cash provided by investing activities was \$145.9 million for Fiscal 2016 and was primarily related to (i) net repayment of asset-based loans of \$177.2 million, as Salus continues to wind down its loan portfolio; (ii) \$48.5 million of cash provided from sales, maturities and repayments, net of purchases, of fixed maturity securities and other investments; and (iii) \$19.7 million of net proceeds from the sale of Compass. Partially offsetting these inflows were capital expenditures of \$95.4 million, primarily in the Consumer Products segment.

Cash used in investing activities during Fiscal 2015 was \$1.0 billion primarily driven by (i) \$1.3 billion used for the acquisitions of AAG, European IAMS and Eukanuba, Salix and Tell in the Consumer Products segment; and (ii) \$90.6 million of capital expenditures. Partially offsetting these outflows were (i) net proceeds of \$289.2 million from the repayment of asset-based loans and (ii) \$81.2 million of cash provided from sales, maturities and repayments, net of purchases, of fixed maturity securities and other investments.

Cash used in investing activities during Fiscal 2014 was \$269.8 million primarily driven by (i) \$127.6 million cash used to originate asset-based loans; (ii) \$75.5 million of capital expenditures; (iii) \$46.8 million of cash used for purchases, of fixed maturity securities and other investments, net of sales, maturities and repayments; and (iv) 27.3 million used for the acquisitions of Liquid Fence, FOH and CorAmerica.

Financing Activities

Cash used in financing activities during Fiscal 2016 was \$866.6 million primarily related to (i) debt repayment by Spectrum Brands of \$819.5 million, inclusive of discretionary payments on term loans of \$415.5 million; (ii) debt repayment at Salus of \$240.1 million; (iii) cash used for payment of contractholder account withdrawals, net of account deposits of \$134.7 million; (iv) purchases of Spectrum Brands stock of \$52.1 million; (v) share-based award tax withholding payments of \$28.7 million; and (vi) dividend paid by Spectrum Brands to noncontrolling interests of \$37.3 million, partially offset by new borrowing by Spectrum Brands under the 4.00% Notes, net of financing costs \$475.7 million.

Cash provided by financing activities during Fiscal 2015 was \$709.4 million primarily driven by (i) proceeds from issuance of debt, net of financing costs of \$3.7 billion to fund certain acquisitions, organic growth and refinance debt with lower interest rates; (ii) cash provided by contractholder account deposits, net of the payment of contractholder account withdrawals of \$61.9 million; and (iii) \$281.0 million of cash provided by the issuance of Spectrum Brands common stock in relation to the funding for the acquisition of AAG. Partially offsetting these cash inflows was cash

used for (i) the repayment of debt, including tender and call premiums of \$3.1 billion; (ii) \$49.6 million used for the purchases of shares of Spectrum Brands as well as on additional interest in CorAmerica; (iii) payment of dividends by our partially owned subsidiaries to noncontrolling interest holders of \$31.0 million; (iv) common stock repurchases of \$22.2 million; and (v) share-based award tax withholding payments of \$21.0 million.

Cash used in financing activities during Fiscal 2014 was \$147.0 million primarily driven by (i) repayment of debt, including tender and call premiums of \$770.9 million; (ii) cash used for payment of contractholder account withdrawals, net of contractholder account deposits of \$135.2 million; (iii) common stock repurchases of \$65.8 million; (iv) share-based award tax withholding payments of \$31.5 million; (v) payment of dividends on preferred stock of \$28.6 million; and (vi) payment of dividends by our partially owned subsidiaries to noncontrolling interest holders of \$26.0 million. This was offset by the proceeds

Table of Contents

from issuance of debt, net of financing costs of \$917.5 million to fund certain acquisitions, organic growth and refinance debt with lower interest rates.

Debt Financing Activities

At September 30, 2016, HRG and its subsidiaries were in compliance with their respective covenants under their respective debt documents. See Note 15, Debt, to our Consolidated Financial Statements included in Part IV - Item 15. Exhibits, Financial Statements and Schedules for additional information regarding the Company and its subsidiaries' debt activities during Fiscal 2016.

Equity Financing Activities

During Fiscal 2016, we granted shares and restricted stock awards representing approximately 99 thousand shares to our employees, our directors, and our consultants. All vesting dates of grants made to our employees are subject to the recipient's continued employment with us, except as otherwise permitted by our Board of Directors, or in certain cases if the employee is terminated without cause or resigns for good reason. The total market value of the restricted shares on the date of grant was approximately \$1.4 million, a portion of which represented unearned restricted stock-based compensation. Unearned compensation is amortized to expense over the appropriate vesting period.

From time to time we may repurchase our outstanding shares of common stock in the open market or otherwise.

During Fiscal 2016, we did not repurchase any of our outstanding common stock under the \$100.0 million repurchase program authorized by our Board in May 2014. As of September 30, 2016, under this program, we had repurchased a total of 6.9 million shares of our common stock, at an aggregate repurchase price of \$87.7 million, with \$12.3 million remaining value of the shares that may be purchased in the future. Under a different common stock repurchase program, during Fiscal 2015 and 2014, we repurchased 1.7 million and 5.2 million shares, respectively, of our outstanding common stock for \$22.2 million and \$65.5 million, respectively.

Contractual Obligations

The following table summarizes our contractual obligations as of September 30, 2016 and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in millions) and excludes certain other obligations that have been reflected on our Consolidated Balance Sheets as of September 30, 2016 included in this report.

	Payments Due by Period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	Thereafter
Contractual obligations of business held for use:					
Annuity, universal life, and long-term products ^(a)	\$ 1,671.6	\$ 204.1	\$ 321.6	\$ 253.7	\$ 892.2
Debt, excluding capital lease ^(b)	5,426.0	156.0	891.1	125.4	4,253.5
Interest payments, excluding capital lease ^(b)	1,869.9	312.3	613.4	475.3	468.9
Capital lease ^(c)	114.7	10.0	18.3	18.5	67.9
Operating lease ^(d)	157.1	44.3	59.3	33.3	20.2
Employee benefit ^(e)	125.8	10.6	22.8	24.9	67.5
Letters of credit ^(f)	26.9	26.9	—	—	—
Unfunded asset-based lending commitments ^(g)	6.2	6.2	—	—	—
Total contractual obligations of business held for use	\$9,398.2	\$ 770.4	\$ 1,926.5	\$ 931.1	\$ 5,770.2
Contractual obligations of business held for sale:					
Annuity and universal life products	\$29,781.2	\$ 2,223.7	\$ 4,391.4	\$ 3,974.1	\$ 19,192.0
Operating leases	8.4	1.9	3.6	2.9	—
Debt	300.0	—	—	300.0	—
Revolving credit facility	100.0	100.0	—	—	—
Interest expense	95.8	19.1	38.3	38.3	0.1
Total contractual obligations of business held for sale	\$30,285.4	\$ 2,344.7	\$ 4,433.3	\$ 4,315.3	\$ 19,192.1

At September 30, 2016, our Consolidated Balance Sheets included \$47.9 million of reserves for uncertain tax positions. It is not possible to predict or estimate the timing of payments for these obligations and, accordingly, they are not reflected in the above table.

- Consists of projected payments through the year 2030 that the Insurance segment is contractually obligated to pay to annuity, universal life, and long-term care policyholders. The payments are derived from actuarial models which
- (a) assume a level interest rate scenario and incorporate assumptions regarding mortality and persistency, when applicable. These assumptions are based on historical experience, but actual amounts will differ.
 - (b) For more information concerning debt, see Note 15, Debt, to our Consolidated Financial Statements.
 - (c) Capital lease payments due by fiscal year include executory costs and imputed interest.
 - (d) For more information concerning operating leases, see Note 22, Commitments and Contingencies, to our Consolidated Financial Statements.

Table of Contents

Employee benefit obligations represent the sum of our estimated future minimum required funding for our qualified defined benefit plans based on actuarially determined estimates and projected future benefit payments from our unfunded postretirement plans. For additional information about our employee benefit obligations, see Note 17, Employee Benefit Obligations, to our Consolidated Financial Statements.

(e) Consists of standby letters of credit that back the performance of certain entities under various credit facilities, insurance policies and lease arrangements.

(f) Consists entirely of unfunded asset-based lending commitments of Salus.

Off-Balance Sheet Arrangements

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

Seasonality

On a consolidated basis, our financial results are approximately equally weighted between quarters, however, sales of certain product categories within our Consumer Products segment tend to be seasonal. Sales in the consumer batteries and personal care products categories tend to increase during the December holiday season (our first fiscal quarter), while small appliances sales increase from July through December primarily due to the increased demand by customers in the late summer for “back-to-school” sales (our fourth fiscal quarter) and in December for the holiday season. Sales for hardware and home improvement products increase during the spring and summer construction period (our third and fourth fiscal quarters). Sales for global pet supplies products remain fairly consistent throughout the year with little variations. Sales for home and garden control products and global auto care typically peak during the first six months of the calendar year (our second and third fiscal quarters) due to customer seasonal purchasing patterns and timing of promotional activities.

Information about our sales by quarter as a percentage of annual net sales during the last three fiscal years was as follows:

Percentage of Annual Net Consumer Products Sales	Fiscal		
Fiscal Quarter Ended	2016	2015	2014
First Quarter	24%	23%	25%
Second Quarter	24%	23%	23%
Third Quarter	27%	26%	25%
Fourth Quarter	25%	28%	27%

Recent Accounting Pronouncements Not Yet Adopted**Revenue from Contracts with Customers**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which supersedes the revenue recognition requirements in Accounting Standards Codification (“ASC”) ASC 605, Revenue Recognition. ASU 2014-09 requires revenue recognition to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new revenue recognition model requires identifying the contract and performance obligations, determining the transaction price, allocating the transaction price to performance obligations and recognizing the revenue upon satisfaction of performance obligations. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the updates recognized at the date

of the initial application along with additional disclosures. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date (“ASU 2015-14”), which amends the previously issued ASU 2014-09 to provide for a one year deferral from the original effective date. As a result, the ASU 2014-09 will become effective for the Company beginning in the first quarter of its fiscal year ending September 30, 2019, with early adoption beginning in the first quarter of its fiscal year ending September 30, 2018. In March 2016, the FASB issued ASU No 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) (“ASU 2016-08”), which clarifies gross versus net revenue reporting when another party is involved in the transaction. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (“ASU 2016-10”), which amends the revenue guidance on identifying performance obligations and accounting for licenses of intellectual property. There are two transition methods available under the new standard, either cumulative effect or retrospective. The Company is in the process of evaluating the impact of this update on its financial condition, results of operations or liquidity.

100

Table of Contents

Share-Based Payments When a Performance Target is Achieved after the Requisite Service Period

In June 2014, the FASB issued ASU No. 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Term of an Award Provide that a Performance Target Could Be Achieved after the Requisite Service Period, effective for fiscal years beginning after December 15, 2015 and interim periods within those years. The new guidance requires that performance targets that affect vesting and that could be achieved after the requisite service period to be treated as performance conditions. Such performance targets would not be included in the grant-date fair value calculation of the award, rather compensation cost should be recorded when it is probable the performance target will be reached and should represent the compensation cost attributable to period(s) for which the requisite service has already been rendered. This standard may be early adopted and the amendments in this accounting standards update may be applied either prospectively or retrospectively. The Company is currently evaluating the impact of this new accounting guidance on its Consolidated Financial Statements.

Amendments to the Consolidation Analysis

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This ASU makes changes to the VIE model and voting interest (“VOE”) model consolidation guidance. The main provisions of the ASU include the following: i) adding a requirement that limited partnerships and similar legal entities must provide partners with either substantive kick-out rights or substantive participating rights over the general partner to qualify as a VOE rather than a VIE; ii) eliminating the presumption that the general partner should consolidate a limited partnership; iii) eliminating certain conditions that need to be met when evaluating whether fees paid to a decision maker or service provider are considered a variable interest; iv) excluding certain fees paid to decision makers or service providers when evaluating which party is the primary beneficiary of a VIE; and v) revising how related parties are evaluated under the VIE guidance. Lastly, this ASU eliminates the indefinite deferral of FAS 167, which allowed reporting entities with interests in certain investment funds to follow previous guidance in FIN 46 (R). However, this ASU permanently exempts reporting entities from consolidating registered money market funds that operate in accordance with Rule 2a-7 of the Investment Company Act of 1940. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Entities may apply this ASU either using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning period of adoption or retrospectively to all prior periods presented in the financial statements. Early adoption is also permitted provided that this ASU is applied from the beginning of the fiscal year of adoption. The Company is currently evaluating the impact of this ASU on its Consolidated Financial Statements.

Investments That Calculate Net Asset Value per Share

In May 2015, the FASB issued ASU No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), effective for fiscal years beginning after December 15, 2015 and interim periods within those years. Current U.S. GAAP requires that investments for which fair value is measured at net asset value (or its equivalent) using the practical expedient in Topic 820 be categorized within the fair value hierarchy using criteria that differ from the criteria used to categorize other fair value measurements within the hierarchy. Currently, investments valued using the practical expedient are categorized within the fair value hierarchy on the basis of whether the investment is redeemable with the investee at net asset value on the measurement date, never redeemable with the investee at net asset value, or redeemable with the investee at net asset value at a future date. For investments that are redeemable with the investee at a future date, a reporting entity must take into account the length of time until those investments become redeemable to determine the classification within the fair value hierarchy. There is diversity in practice related to how certain investments measured at net asset value with redemption dates in the future (including periodic redemption dates) are categorized within the fair value hierarchy. Under the amendments in this ASU, investments for which fair value is measured at net asset value per share (or its equivalent) using the practical expedient should not be categorized in the fair value hierarchy. Removing those investments from the fair value hierarchy not only eliminates the diversity in practice resulting from the way in which investments measured at net asset value per share (or its equivalent) with future redemption dates are classified, but also ensures that all investments categorized in the fair value hierarchy are classified using a consistent approach. Investments that calculate net asset value per share (or its equivalent), but for which the practical expedient is not applied will continue to be included in the fair value hierarchy. Early adoption is permitted. The amendments in this

ASU are required to be applied retrospectively to all prior periods presented in the financial statements. The Company will not adopt this standard early and is currently evaluating the impact of this new accounting guidance on its Consolidated Financial Statements.

Amendments to Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (“ASU 2016-01”), which changes how entities measure certain equity investments and present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. Under the new guidance, entities will be required to measure equity investments that do not result in consolidation and are not accounted for under the equity method at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. For financial liabilities measured using the fair value option, entities will be required to record changes in fair value caused by a change in instrument-specific credit risk (own credit

Table of Contents

risk) separately in other comprehensive income. The accounting for other financial instruments, such as loans and investments in debt securities is largely unchanged. The classification and measurement guidance is effective for public entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. This update will be effective for the Company in the first quarter of fiscal year 2019. The Company is in the process of evaluating the impact of this update on its financial condition, results of operations or liquidity.

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), which supersedes the lease requirements in ASC 840, Leases. ASU 2016-02 requires lessees to recognize lease assets and liabilities on the balance sheet, as well as to disclose key information about leasing arrangements. Although the new ASU 2016-02 requires both operating and finance leases to be disclosed on the balance sheet, a distinction between the two types still exists as the economics of leases can vary. ASU 2016-02 can be applied using a modified retrospective approach, with a number of optional practical expedients relating to the identification and classification of leases that commenced before the effective date, along with the ability to use hindsight in the evaluation of lease decisions, that entities may elect to apply. ASU 2016-02 is effective for public business entities in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. As a result, the ASU 2016-02 will become effective for the Company beginning in the first quarter of its fiscal year ending September 30, 2020, with early adoption applicable. The Company is in the process of evaluating the impact of this update on its financial condition, results of operations or liquidity.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), which introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. ASU 2016-13 is effective for the Company in the first quarter of fiscal year ending September 30, 2020. The Company is in the process of evaluating the impact of this update on its financial condition, results of operations or liquidity.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which intends to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. ASU 2016-15 is effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. As a result, the ASU 2016-15 will become effective for the Company beginning in the first quarter of its fiscal year ending September 30, 2019, with early adoption applicable. The Company is in the process of evaluating the impact of this update on its financial condition, results of operations or liquidity.

Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory (“ASU 2016-16”), which removes the prohibition against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. ASU 2016-16 is effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. As a result, the ASU 2016-16 will become effective for the Company in the first quarter of fiscal year ending September 30, 2019, with early adoption applicable. The Company is in the process of evaluating the impact of this update on its financial condition, results of operations or liquidity.

Interests Held through Related Parties That Are under Common Control

In October 2016, the FASB issued ASU No. 2016-17, Consolidation (Topic 810): Interest Held through Related Parties That Are under Common Control (“ASU 2016-17”), which alters how a decision maker needs to consider indirect interest in a variable interest entity (“VIE”) held through an entity under common control. ASU 2016-17 is effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. As a result, the ASU 2016-17 will become effective for the Company in the first quarter of fiscal year ending September 30, 2019, with early adoption applicable. The Company is in the process of evaluating

the impact of this update on its financial condition, results of operations or liquidity.

Restricted Cash

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, a consensus of the FASB Emerging Issues Task Force (“ASU 2016-18”), which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 is effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. As a result, the ASU 2016-18 will become effective for the Company in the first quarter of fiscal year ending September 30, 2019, with early adoption applicable. The Company is in the process of evaluating the impact of this update on its financial condition, results of operations or liquidity.

Table of Contents

Critical Accounting Policies and Estimates

The preparation of our financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. We believe the following accounting policies are critical to an understanding of our financial statements. The application of these policies requires management's judgment and estimates in areas that are inherently uncertain. Actual results could differ materially from those estimates. Except for the matter discussed below, there have been no material changes to the critical accounting policies and estimates.

General

Assets Held for Sale and Discontinued Operations

The Company reports a business as held for sale when the criteria of ASC Topic 360, Property, Plant and Equipment ("ASC 360") are met. 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 business 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 sold or classified as held for sale, in accordance with ASC 360 and 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 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 business 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. As discussed in Note 4, Divestitures, on July 1, 2016, the Company entered into an agreement to sell all of its remaining oil and gas interests. Consequently, the Company's investments in oil and gas properties have been reclassified as discontinued operations.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax laws or rates is recognized in the income in the period that includes the enactment date. The Company has the ability and intent to recover in a tax-free manner assets (or liabilities) with book/tax basis differences for which no deferred taxes have been provided, in accordance with ASC Topic 740, Income Taxes. Additionally, taxing jurisdictions could retroactively disagree with our tax treatment of certain items, and some historical transactions have income tax effects going forward. Accounting guidance requires these future effects to be evaluated using current laws, rules and regulations, each of which can change at any time and in an unpredictable

manner.

In accordance with ASC Topic 740, we establish valuation allowances for deferred tax assets when, in our judgment, we conclude that it is more-likely-than-not that the deferred tax assets will not be realized. We base these judgments on projections of future income, including tax-planning strategies, by individual tax jurisdiction. Changes in industry and economic conditions and the competitive environment may impact the accuracy of our projections. In accordance with ASC Topic 740, during each reporting period, we assess the likelihood that our deferred tax assets will be realized and determine if adjustments to our valuation allowance are appropriate. As a result of this assessment, as of September 30, 2016, our consolidated valuation allowance was \$512.1 million. Increase or decreases in our of valuation allowances has had and could have a significant negative or positive impact on our current and future earnings. In Fiscal 2016, 2015 and 2014, we recorded a net (benefit) expense, respectively, due to changes in valuation allowances of \$(42.3) million, \$190.8 million and \$(31.8) million, respectively. Additionally, our ability to use NOLs and other tax carryforwards could also be adversely affected if the respective companies were deemed to have an

103

Table of Contents

“ownership change” within the meaning of Sections 382 and 383 of the Code. An ownership change is generally defined as a greater than 50% increase in equity ownership by “5% shareholders” (as that term is defined for purposes of Sections 382 and 383 of the Code) in any three-year period. We experienced ownership changes in 2013 and in the years prior, which have limited the utilization of a portion of their NOL carryforwards and other carryforward tax attributes.

We prepare and file tax returns based on our interpretation of tax laws and regulations. Our tax returns are subject to examination by various taxing authorities and may result in future tax and interest assessments. For financial reporting purposes, we apply the accounting guidance for uncertain tax positions under ASC Topic 740 which prescribes a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. A reserve for uncertain tax positions is established for those positions that are determined to not be more likely than not of being sustained upon examination based on their technical merits. Our unrecognized tax benefits totaled \$47.9 million and \$16.1 million as of September 30, 2016 and 2015, respectively. See further discussion in Note 19, Income Taxes, to our Consolidated Financial Statements.

Loss Contingencies

Loss contingencies are recorded as liabilities when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The outcome of existing litigation, the impact of environmental matters and pending or potential examinations by various taxing or regulatory authorities are examples of situations evaluated as loss contingencies. Estimating the probability and magnitude of losses is often dependent upon management’s judgment of potential actions by third parties and regulators. It is possible that changes in estimates or an increased probability of an unfavorable outcome could materially affect our business, financial condition or results of operations.

The establishment of litigation, regulatory and environmental reserves requires judgments concerning the ultimate outcome of pending claims against us and our subsidiaries. In applying judgment, management utilizes opinions and estimates obtained from outside legal counsel to apply the appropriate accounting for contingencies. Accordingly, estimated amounts relating to certain claims have met the criteria for the recognition of a liability. Other claims for which a liability has not been recognized are reviewed on an ongoing basis in accordance with accounting guidance. A liability is recognized for all associated legal costs as incurred. Liabilities for litigation settlements, regulatory matters, environmental settlements, legal fees and changes in these estimated amounts may have a material impact on our financial position, results of operations or cash flows.

If the actual cost of settling these matters, whether resulting from adverse judgments or otherwise, differs from the reserves totaling \$8.2 million that we have accrued as of September 30, 2016, the difference will be reflected in our results of operations when the matter is resolved or when our estimate of the cost changes. See further discussion in Note 22, Commitments and Contingencies, to our Consolidated Financial Statements.

Goodwill, Intangible Assets and Other Long-Lived Assets

Our goodwill, intangible assets and tangible fixed assets are held at historical cost, net of depreciation and amortization, less any provision for impairment. Intangible and tangible assets with determinable lives are amortized or depreciated on a straight line basis over estimated useful lives.

On an annual basis, or more frequently if triggering events occur, we compare the estimated fair value of our reporting units to the carrying value to determine if potential goodwill impairment exists. If the fair value of a reporting unit is less than its carrying value, an impairment loss, if any, is recorded for the difference between the implied fair value of the reporting unit goodwill and its carrying value. The estimated fair value represents the amount at which a reporting unit could be bought or sold in a current transaction between willing parties on an arms-length basis. In estimating the fair value of the reporting unit, we use a discounted cash flows methodology, which requires us to estimate future revenues, expenses, and capital expenditures and make assumptions about our weighted average cost of capital, and perpetuity growth rate, among other variables. We tested the aggregate estimated fair value of our consumer products reporting units for reasonableness by comparison to Spectrum Brands’ total market capitalization, which includes both its equity and debt securities.

In addition to goodwill, we have indefinite-lived intangible assets that consist of acquired tradenames. On an annual basis, or more frequently if triggering events occur, we compare the estimated fair value of the identified trade names to the carrying value to determine if potential impairment exists. If the fair value is less than its carrying value, an

impairment loss is recorded for the excess. The fair value of indefinite-lived intangible assets is determined using an income approach, the relief from royalty methodology, which requires us to make estimates and assumptions about future revenues, royalty rates, and the discount rate, among others.

We also review other definite-lived intangible assets and tangible fixed assets for impairment when events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Circumstances such as the discontinuation of a product or product line, a sudden or consistent decline in the sales forecast for a product, changes in technology or in the way an asset is being used, a history of operating or cash flow losses or an adverse change in legal factors or in the business climate, among others, may trigger an impairment review. If such indicators are present, the Company performs undiscounted cash flow analyses to determine if impairment exists. The asset value would be deemed impaired if the undiscounted cash flows expected to be generated by the asset did not exceed the carrying value of the asset. If impairment is determined to exist, any related impairment loss is calculated based on fair value.

Table of Contents

A considerable amount of judgment and assumptions is required in performing the impairment tests, principally in determining the fair value of each reporting unit and assets subject to impairment testing. While we believe that our judgments and assumptions are reasonable, different assumptions could change the estimated fair value and therefore, additional impairment changes could be required. The Company is subject to financial statement risk in the event that business or economic conditions unexpectedly decline and impairment is realized.

In Fiscal 2016, 2015 and 2014, we tested our goodwill and indefinite-lived intangible assets as required. As a result of this testing, there were no impairment charges in Fiscal 2014. See “Corporate and Other Segment” and “Consumer Products Segment” section below for impairments recorded in Fiscal 2016 and 2015.

See Note 2, Significant Accounting Policies and Practices and Recent Accounting Pronouncements, and Note 12, Goodwill and Intangibles, net, to our Consolidated Financial Statements for more information about our asset impairment determinations.

Restructuring and Related Charges

Restructuring charges include, but are not limited to, termination and related costs consisting primarily of one-time termination benefits such as severance costs and retention bonuses, and contract termination costs consisting primarily of lease termination costs. Related charges, as defined by us, include, but are not limited to, other costs directly associated with exit and relocation activities, including impairment of property and other assets, departmental costs of full-time incremental employees, and any other items related to the exit or relocation activities. Costs for such activities are estimated by us after evaluating detailed analyses of the costs to be incurred.

Liabilities from restructuring and related charges are recorded for estimated costs of facility closures, significant organizational adjustments and measures undertaken by us to exit certain activities. Costs for such activities are estimated by us after evaluating detailed analyses of the costs to be incurred. Such liabilities could include amounts for items such as severance costs and related benefits (including settlements of pension plans), impairment of property and equipment and other current or long term assets, lease termination payments and any other items directly related to the exit activities.

Restructuring and related charges associated with manufacturing and related initiatives are reported in cost of goods sold. Restructuring and related charges reflected in cost of goods sold include, but are not limited to, termination and related costs associated with manufacturing employees, asset impairments relating to manufacturing initiatives and other costs directly related to the restructuring initiatives implemented. Restructuring and related charges associated with administrative functions are reported in operating expenses, such as initiatives impacting sales, marketing, distribution or other non-manufacturing related functions. Restructuring and related charges reflected in operating expenses include, but are not limited to, termination and related costs, any asset impairments relating to the administrative functions and other costs directly related to the initiatives implemented.

While the actions are carried out as expeditiously as possible, restructuring and related charges are estimates. Changes in estimates resulting in an increase to or a reversal of a previously recorded liability may be required as we execute a restructuring plan. See Note 20, Restructuring and Related Charges to our Consolidated Financial Statements for further discussion of our restructuring initiatives and related costs.

Consumer Products Segment

Goodwill, Intangible Assets and Other Long-Lived Assets

Spectrum Brands has reporting units that are also consistent with Spectrum Brands’ product lines: global batteries and appliances, hardware and home improvement, global pet supplies, home and garden, and global auto care. The fair value of global batteries and appliances, hardware and home improvement, global pet supplies, home and garden and global auto care reporting units exceeded their carrying value by 157%, 110%, 58%, 326% and 12%, respectively. During Fiscal 2016, Spectrum Brands recognized \$4.7 million impairment on indefinite life intangible assets due to the reduction in value over certain tradenames in response to changes in management’s strategy.

There were no triggering events identified during the year that would require the need for an impairment test over Spectrum Brands’ definite-lived assets.

See Note 2, Significant Accounting Policies and Practices and Recent Accounting Pronouncements to our Consolidated Financial Statements for a more complete discussion.

Insurance Segment

Front Street Cayman has entered into various reinsurance agreements on a funds withheld basis, meaning that funds are withheld by the ceding company, from the coinsurance premium owed to Front Street Cayman as collateral for Front Street Cayman's payment obligations. Accordingly, the collateral assets remain under the ultimate ownership for the ceding company. Front Street Cayman has entered into such reinsurance agreements with FGL ("Reinsurance Agreements with FGL"), as well as third parties ("Reinsurance Agreements with Third Parties"). For segment reporting purposes, at the inception date of the reinsurance transactions, Front Street elected to apply the fair value option to account for its funds withheld receivables, non-funds withheld assets and future policyholder benefits reserves related to its assumed reinsurance. For consolidated reporting, the results from

Table of Contents

Front Street's assumed reinsurance business with FGL is reported on FGL's historical basis. Upon completion of the FGL Merger, the Company's consolidated results will reflect all reinsurance business on the fair value option.

Valuation of Funds Withheld Receivables

The funds withheld receivable portfolio related to the Reinsurance Agreements with FGL consists of investments in debt and equity securities that are carried at fair value with unrealized gains and losses included in AOCI, net of associated intangibles "shadow adjustments" and deferred income taxes. Unrealized gains and losses represent the difference between the cost or amortized cost basis and the fair value of these investments. We measure the fair value of such securities based on assumptions used by market participants, which may include inherent risk and restrictions on the sale or use of an asset. The estimate of fair value is the price that would be received to sell an asset in an orderly transaction between market participants ("exit price") in the principal market, or the most advantageous market in the absence of a principal market, for that asset or liability. We utilize independent pricing services in estimating the fair values of such securities. The independent pricing services incorporate a variety of observable market data in their valuation techniques, including: reported trading prices, benchmark yields, broker-dealer quotes, benchmark securities, bids and offers, credit ratings, relative credit information and other reference data.

Front Street elected to apply the fair value option to account for its funds withheld receivables related to its assumed reinsurance with third parties. Front Street measures fair value of the funds withheld receivables based on the fair values of the securities in the underlying funds withheld portfolio held by the cedant. Policy loans included in the funds withheld receivables with third parties are measured at fair value, which approximates amortized cost.

We categorize the securities in Front Street's funds withheld receivables portfolio into a three-level hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument.

The following table presents the fair value of the funds withheld assets, by pricing source and hierarchy level as of September 30, 2016 (in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed maturity securities, equity securities and call options:				
Priced via third party pricing services	\$ 69.9	\$ 1,398.4	\$ —	\$ 1,468.3
Priced via independent broker quotations	—	—	35.7	35.7
Priced via other methods	—	—	40.6	40.6
Total	69.9	1,398.4	76.3	1,544.6
Loan participations:				
Priced via other methods	—	—	1.8	1.8
Total	\$ 69.9	\$ 1,398.4	\$ 78.1	\$ 1,546.4
% of total	4.5	% 90.4	% 5.1	% 100.0

Front Street's assessment of all available data when determining fair value of the securities in the funds withheld receivables portfolio is necessary to appropriately apply fair value accounting. The independent pricing services also take into account perceived market movements and sector news, as well as a security's terms and conditions, including any features specific to that issue that may influence risk and marketability. Depending on the security, the priority of the use of observable market inputs may change as some observable market inputs may not be relevant or additional inputs may be necessary. Front Street generally obtains one value from its asset managers that utilize independent pricing services. In situations where a price is not available from the independent pricing service, Front Street's asset managers may obtain broker quotes or prices from additional parties recognized to be market participants. Front Street believes the broker quotes are prices at which trades could be executed based on historical trades executed at broker-quoted or slightly higher prices. When quoted prices in active markets are not available, the determination of

estimated fair value is based on market standard valuation methodologies, including discounted cash flows, matrix pricing, or other similar techniques. See Note 7, Fair Value of Financial Instruments, for further discussion. Front Street validates external valuations (i) at least quarterly through a combination of procedures that include the evaluation of methodologies used by the pricing services, analytical reviews and performance analysis of the prices against trends, and maintenance of a securities watch list; and (ii) at least annually, through comparisons to valuations from other independent pricing services.

Front Street's assumed FIA contracts permit the holder to elect to receive a credit based on an interest rate or the performance of a market index. Certain portions of Front Street's exposure to equity market risk is hedged assuming derivative transactions consisting of call options that hedge Front Street's share of the FIA index credit. Front Street is exposed to credit loss in the

Table of Contents

event of non-performance by its counterparties on the call options. Front Street seeks to reduce the risk associated with such agreements by purchasing such options from large, well-established financial institutions, but there can be no assurance that Front Street will not suffer losses in the event of counterparty non-performance. No collateral has been posted with Front Street by its counterparties; accordingly, the maximum amount of loss due to credit risk that Front Street would incur if parties to the call options failed completely to perform according to the terms of the contracts at September 30, 2016 was \$5.9 million.

All of Front Street's derivative instruments are recognized as either assets or liabilities at fair value in our Consolidated Balance Sheets. The change in fair value of our derivative assets is recognized in "Net investment gains (losses)" in the Consolidated Statements of Operations.

Certain FIA products contain an embedded derivative, a feature that permits the holder to elect an interest rate return or an equity-index linked component, where interest credited to the contract is linked to the performance of various equity indices. The FIA embedded derivative is valued at fair value and included in the liability for contractholder funds in the Consolidated Balance Sheets with changes in fair value included as a component of "Benefits and other changes in policy reserves" in the Consolidated Statements of Operations.

The fair value of derivative assets and liabilities is based upon valuation pricing models and represents what Front Street would expect to receive or pay at the balance sheet date if the ceding company canceled the options, entered into offsetting positions, or exercised the options. Credit risk related to the counterparty is considered when estimating the fair values of these derivatives. The fair values of the embedded derivatives in Front Street's assumed FIA contracts are derived using market value of options, swap rates, mortality rates, surrender rates and non-performance spread and are classified as Level 3. The discount rate used to determine the fair value of Front Street's assumed FIA embedded derivative liabilities includes an adjustment to reflect the risk that these obligations will not be fulfilled ("non-performance risk"). For Fiscal 2016, the nonperformance risk adjustment was based on the expected loss due to default in debt obligations for similarly rated financial companies.

See Note 13, Other Assets, Note 5, Derivative Financial Instruments, Note 7, Fair Value of Financial Instruments and Note 2, Significant Accounting Policies and Practices and Recent Accounting Pronouncements to our Consolidated Financial Statements for a more complete discussion.

Evaluation of OTTI

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

When assessing the Company's intent to sell a debt security or if it is more likely than not the Company will be required to sell a debt security before recovery of its cost basis, the Company evaluates facts and circumstances such as, but not limited to, decisions to reposition the Company's security portfolio, sale of securities to meet cash flow needs and sales of securities to capitalize on favorable pricing and tax planning strategies. In order to determine the amount of the credit loss for a security, the Company calculates the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows the Company expects to recover. The discount rate is the effective interest rate implicit in the underlying security. The effective interest rate is the original purchased yield or the yield at the date the debt security was previously impaired.

The Company analyzes its ability to recover the amortized cost by comparing the net present value of cash flows expected to be collected with the amortized cost of the security. For mortgage-backed and asset-backed securities, cash flow estimates consider the payment terms of the underlying assets backing a particular security, including interest rate and prepayment assumptions, based on data from widely accepted third-party data sources or internal estimates. In addition to interest rate and prepayment assumptions, cash flow estimates also include other assumptions regarding the underlying collateral including default rates and recoveries, which vary based on the asset type and geographic location, as well as the vintage year of the security. For structured securities, the payment priority within

the tranche structure is also considered. For all other debt securities, cash flow estimates are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. If the net present value is less than the amortized cost of the investment, an OTTI is recognized.

The Company includes the total OTTI recognized in “Net investment gains (losses)” in the accompanying Consolidated Statements of Operations, with an offset for the amount of non-credit impairments recognized in AOCI. The Company discloses the amount of OTTI recognized in AOCI and other disclosures related to OTTI in Note 2, Significant Accounting Policies and Practices and Recent Accounting Pronouncements, Note 8, Funds Withheld Receivables, and the Consolidated Statements of Comprehensive Income (Loss) to our Consolidated Financial Statements for a more complete discussion.

Table of Contents

Insurance Reserves

Reinsurance Agreements with FGL

For consolidated reporting, the results from Front Street's assumed reinsurance business with FGL is reported on FGL's historical basis. Upon completion of the FGL Merger, the Company's consolidated results will reflect all reinsurance business on the fair value option.

The determination of future policy benefit reserves is dependent on actuarial assumptions. The principal assumptions used to establish liabilities for future policy benefits are based on FGL's experience. These assumptions are established at issue of the contract and include mortality, morbidity, contract full and partial surrenders, investment returns, annuitization rates and expenses. The assumptions used require considerable judgment. FGL reviews overall policyholder experience at least annually and updates these assumptions when deemed necessary based on additional information that becomes available. For traditional life and immediate annuity products, assumptions used in the reserve calculation can only be changed if the reserve is deemed to be insufficient. For all other insurance products, changes in assumptions will be used to calculate reserves. These changes in assumptions will also incorporate changes in risk free rates and option market values. Changes in, or deviations from, the assumptions previously used can significantly affect the Company's reserve levels and related results of operations.

Mortality is the incidence of death amongst policyholders triggering the payment of underlying insurance coverage by the insurer. In addition, mortality also refers to the ceasing of payments on life-contingent annuities due to the death of the annuitant. FGL utilizes a combination of actual and industry experience when setting its mortality assumptions.

A surrender rate is the percentage of account value surrendered by the policyholder. A lapse rate is the percentage of account value canceled by FGL due to nonpayment of premiums. FGL makes estimates of expected full and partial surrenders of its fixed annuity products. FGL's surrender rate experience in Fiscal 2016 on the fixed annuity products averaged 5.2% which is within FGL's assumed ranges. FGL's best estimate of surrender behavior incorporates actual experience over the entire period, as FGL believes that, over the duration of the policies, FGL will experience the full range of policyholder behavior and market conditions. If actual surrender rates are significantly different from those assumed, such differences could have a significant effect on the Company's reserve levels and related results of operations.

The assumptions used to establish the liabilities for the Company's product guarantees require considerable judgement and are established as management's best estimate of future outcomes. FGL periodically reviews these assumptions and, if necessary, updates them based on additional information that becomes available. Changes in or deviations from the assumptions used can significantly affect FGL's reserve levels and related results of operations.

At issue, and at each subsequent valuation, FGL determines the present value of the cost of the guaranteed minimum withdrawal benefit ("GMWB") rider benefits in excess of benefits that are funded by the account value. FGL also calculates the expected value of the future rider charges for providing for these benefits. FGL accumulates a reserve equal to the portion of these fees that would be required to fund the future benefits less benefits paid to date. In making these projections, a number of assumptions are made and FGL updates these assumptions as experience emerges when required. FGL has minimal experience to date on policyholder behavior for its GMWB products which FGL began issuing in 2008, as a result, future experience could lead to significant changes in our assumptions. If emerging experience deviates from FGL's assumptions on GMWB utilizations, such deviations could have a significant effect on its reserve levels and related results of operations.

Reinsurance Agreements with Third Parties

Front Street elected to apply the fair value option to account for its future policyholder benefits reserve related to its assumed reinsurance with third parties. Front Street uses a discounted cash flows approach to measure the fair value of the future policyholder benefits reserve. The cash flows associated with future policy premiums and benefits are generated using best estimate assumptions (plus a risk margin, where applicable) and are consistent with market prices, where available. Risk margins are typically applied to non-observable, non-hedgeable market inputs such as mortality, morbidity, lapse, discount rate for non-performance risk, discount rate for risk margin, surrenders, etc.

Mortality relates to the occurrence of death. Mortality assumptions are based upon the experience of the cedant as well as past and emerging industry experience, when available. Morbidity relates to the occurrence of a claim status and is a key assumption for the long term care business. Morbidity assumptions are based upon the experience of the cedant

as well as past and emerging industry experience, when available. Mortality and morbidity assumptions may be different by sex, underwriting class and policy type. Assumptions are also made for future mortality and morbidity improvements.

Front Street determines the discount rate based on the market yields on the underlying assets backing the liabilities plus a risk margin to reflect uncertainty and adjusts the discount rate to reflect the credit risk of Front Street. Policies are terminated through surrenders and maturities, where surrenders represent the voluntary terminations of policies by policyholders and maturities are determined by policy contract terms. Surrender assumptions are based upon cedant experience adjusted for expected future conditions. As of December 31, 2015, Front Street began discounting the liability cash flows by using the market yields on the underlying assets backing the liabilities plus a risk margin to reflect uncertainty and adjusts the discount rate to reflect the credit risk of Front Street. In prior periods, the discount rate was based on risk free rates plus non-performance spreads plus a risk

Table of Contents

margin and a factor to reflect own credit risk. The change in discount rate methodology reduced the fair value of the Front Street future policyholder benefit liability by \$7.0 at December 31, 2015.

The Insurance segment's aggregate reserves for contractholder funds, future policy benefits and product guarantees as of September 30, 2016 are summarized as follows (in millions):

	Assumed Reinsurance
Fixed indexed annuities	\$ 812.2
Fixed rate annuities	381.3
Long term care	271.5
Immediate annuities	209.8
Life insurance	76.7
Total	\$ 1,751.5

See Note 2, Significant Accounting Policies and Practices and Recent Accounting Pronouncements to our Consolidated Financial Statements for a more complete discussion.

Corporate and Other Segment**Allowance for Credit Losses on Asset Based Loans**

Salus monitors credit quality as indicated by various factors and utilizes such information in its evaluation of the adequacy of the allowance for credit losses. As of September 30, 2016 and 2015, loans with a net carrying value of \$30.1 million and \$79.8 million, respectively, were considered delinquent by Salus and placed on non-accrual status. It is Salus' policy to discontinue accruing interest on its loans when there is a reasonable doubt as to collectability in the normal course of business. Nonaccrual loans are considered impaired for reporting purposes and are individually evaluated for impairment.

Salus has assessed the adequacy of its allowance for credit losses and believes the level of allowance for credit losses to be adequate to mitigate inherent losses in the portfolio. During Fiscal 2014, there were no outstanding loans that had been individually considered impaired.

During Fiscal 2015, the bankruptcy court overseeing the Chapter 11 proceedings of RadioShack approved the sale of 1,743 of the company's stores to General Wireless Inc., an affiliate of Standard General LP. Salus was the lender under RadioShack's \$250.0 million term loan placed in December 2013 with a net exposure to Salus and Front Street of \$93.0 million and \$7.0 million, respectively, after giving effect to a \$50.0 million participation by FGL and a non-qualifying participation of \$100.0 million held by a third party. During Fiscal 2015, the \$100.0 million held by a third party was repaid in full because this third party had the right of first payment in the case of a bankruptcy under an intercreditor agreement with Salus. During Fiscal 2015, the Company recognized charge-offs of \$51.1 million, excluding any charge-offs related to FGL's participations which are included in "(Loss) income from discontinued operations, net of tax" in the accompanying Consolidated Statements of Operations; and an additional net increase in the provision of credit losses of \$19.2 million related to the loan with RadioShack.

During Fiscal 2016, Salus and Front Street received a partial repayment on the loan to RadioShack of \$45.4 million, excluding \$22.7 million repayment on FGL's participation on the loan. At September 30, 2016, the Company expects an additional \$3.0 million of future recoveries of the loan to RadioShack, excluding \$1.5 million related to FGL's participation on the loan that is included in "Assets of business held for sale" in the accompanying Consolidated Balance Sheets. As a result of the higher than expected recovery rates during Fiscal 2016, the Company reversed \$18.0 million of previously recorded allowance for credit losses, excluding \$9.0 million of realized gains by FGL recorded in "(Loss) income from discontinued operations, net of tax" in the accompanying Consolidated Statements of Operations. During Fiscal 2016, Salus recorded provision of credit losses of \$30.8 related to delinquent loans unrelated to RadioShack where the underlying collateral was underperforming.

Goodwill, Intangible Assets

During the third quarter of Fiscal 2016, the Company determined that sufficient indicators of potential impairment existed to require an interim goodwill impairment analysis for the CorAmerica reporting unit. The Company estimated the fair value of the CorAmerica reporting unit using the income approach. Under the income approach, the Company calculated the fair value of the CorAmerica reporting unit based on the present value of estimated future cash flows.

The Company's estimate of discounted cash flows for each reporting unit required significant judgment. Cash flow projections were based on management's estimates of revenue and operating margins, taking into consideration existing agreements, industry and market conditions. The discount rate used was based on the weighted-average cost of capital adjusted for the relevant risk associated with business-specific characteristics and the uncertainty related to CorAmerica's ability to execute on the projected cash flows. The evaluation was management's best estimate of projected fair values. Management's estimate of implied fair value of goodwill was zero and, consequently, resulted in a goodwill impairment charge of \$10.7 million. The goodwill impairment charge was reflected in "Impairments and bad debt expense" on the accompanying Consolidated Statements of Operations.

Table of Contents

Effective April 19, 2015, FOHG, FOH and their subsidiaries filed for bankruptcy. Following the completion of the bankruptcy of FOHG, FOH and their subsidiaries, such entities ceased to be subsidiaries of HRG.

During the first fiscal quarter of 2015, the Company concluded that an interim impairment test of goodwill and indefinite-lived intangible assets for its FOH reporting unit was necessary. This conclusion was based on certain indicators of impairment, primarily related to the 2014 CEO Departure and the change in the strategic direction of FOH following such departure. The revised plan changed the focus from expansion to rationalization of the existing business and was expected to result in lower revenues and profitability with a reduced level of capital expenditure by us as compared to the level of capital expenditure contemplated under prior management at the time of FOH's acquisition in May of 2014. During Fiscal 2016, we recorded an impairment charge of \$10.7 million, related to goodwill of \$10.7 million and indefinite lived intangible assets of \$4.7 million.

We estimated the fair value of the FOH reporting unit and indefinite-lived intangible assets on a combination of the income and market multiple approaches. Generally, we place a greater significance on the income approach. The discount rate used in our impairment tests ranged from 16.0% to 18.0%; the near-term growth rates ranged from 6.7% to 15.6%; the perpetual growth rate 3.0%; the royalty rate was 2.5%; and a tax rate of approximately 38.0%.

The financial forecast utilized for purposes of the impairment analysis was an estimate of reasonable expected-case financial results that a market participant would expect the FOH to generate in the future. While the Company believes the assumptions used in the interim and annual impairment analyses are reasonable, our analysis is sensitive to adverse changes in the assumptions used in the valuations. In particular, changes in the projected cash flows, the discount rate, the terminal year growth rate, royalty rate and market multiple assumptions could produce significantly different results for the impairment analyses.

The measurement of the fair value of goodwill and indefinite-lived intangible assets was based on a combination of income and market-multiple approaches. These evaluations utilized the best information available in the circumstances, including reasonable and supportable assumptions and projections. Certain key assumptions utilized, including changes in revenue, operating expenses, working capital requirements, and capital expenditures, are based on estimates related to strategic initiatives in place and current market conditions. The discounted cash flow analyses used a discount rate that corresponds to the weighted-average cost of capital for the industry and consideration of the current financial condition of FOH. The discount rate assumed was consistent with that used for investment decisions and takes into account the specific and detailed operating plans and strategies of the individual business operations. The market data utilized included publicly-traded prices and transaction values of comparable companies with operations considered to be similar to those of the Company's individual businesses. Collectively, these evaluations were management's best estimate of projected future cash flows and market values.

Valuation of Embedded Derivative

Prior to exercising its option to convert substantially all of its outstanding preferred stock on May 15, 2014, the Company's two series of outstanding preferred stock each contained a conversion feature (see Note 1, Basis of Presentation and Nature of Operations, to our Consolidated Financial Statements). If the Company were to have issued certain equity securities at a price lower than the conversion price of the respective preferred stock, the conversion price would have been adjusted downward to reflect the dilutive effect of the newly issued securities (a "down round" provision). In accordance with the guidance in ASC Topic 815, Derivatives and Hedging, the conversion feature was considered to be an embedded derivative that must be separately accounted for as a liability at fair value with any changes in fair value reported in current earnings. The embedded derivative was bifurcated from the host contracts as of the respective issuance dates, marked to fair value with the change in fair value shown separately in the Consolidated Statements of Operations.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market Risk Factors

Market risk is the risk of the loss of fair value resulting from adverse changes in market rates and prices, such as interest rates,