

PRINCIPAL FINANCIAL GROUP INC

Form 10-Q

November 05, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

OR

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

1-16725

(Commission file number)

PRINCIPAL FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

42-1520346

(I.R.S. Employer Identification Number)

711 High Street, Des Moines, Iowa 50392

(Address of principal executive offices)

(515) 247-5111

(Registrant's telephone number, including area code)

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller reporting company
(Do not check if a 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 No

The total number of shares of the registrant's Common Stock, \$0.01 par value, outstanding as of October 29, 2008, was 259,339,895.

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Consolidated Statements of Financial Position**

	September 30, 2008 (Unaudited)	December 31, 2007
	(in millions)	
Assets		
Fixed maturities, available-for-sale	\$ 44,622.1	\$ 46,738.9
Fixed maturities, trading	982.2	529.3
Equity securities, available-for-sale	246.2	316.4
Equity securities, trading	204.8	269.8
Mortgage loans	13,268.8	12,659.6
Real estate	891.5	862.5
Policy loans	883.7	869.9
Other investments	1,981.4	2,118.6
Total investments	63,080.7	64,365.0
Cash and cash equivalents	2,269.0	1,344.4
Accrued investment income	806.9	774.1
Premiums due and other receivables	1,598.4	951.2
Deferred policy acquisition costs	3,727.1	2,810.1
Property and equipment	510.8	469.0
Goodwill	382.3	374.7
Other intangibles	976.1	1,006.9
Separate account assets	67,087.6	80,486.8
Other assets	2,970.8	1,938.0
Total assets	\$ 143,409.7	\$ 154,520.2
Liabilities		
Contractholder funds	\$ 44,238.4	\$ 40,288.9
Future policy benefits and claims	18,770.0	18,454.7
Other policyholder funds	559.2	540.5
Short-term debt	350.1	290.8
Long-term debt	1,378.6	1,398.8
Income taxes currently payable	43.6	41.6
Deferred income taxes	148.5	576.3
Separate account liabilities	67,087.6	80,486.8
Other liabilities	5,221.1	5,020.1
Total liabilities	137,797.1	147,098.5
Stockholders equity		
Series A preferred stock, par value \$.01 per share with liquidation preference of \$100 per share - 3.0 million shares authorized, issued and outstanding in 2008 and 2007		
Series B preferred stock, par value \$.01 per share with liquidation preference of \$25 per share - 10.0 million shares authorized, issued and outstanding in 2008 and 2007	0.1	0.1
Common stock, par value \$.01 per share - 2,500.0 million shares authorized, 386.9 million and 385.8 million shares issued, and 259.2 million and 259.1 million shares outstanding in 2008 and 2007, respectively	3.9	3.9

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Additional paid-in capital	8,366.7	8,295.4
Retained earnings	3,847.8	3,414.3
Accumulated other comprehensive income (loss)	(1,887.3)	420.2
Treasury stock, at cost (127.7 million and 126.7 million shares in 2008 and 2007, respectively)	(4,718.6)	(4,712.2)
Total stockholders' equity	5,612.6	7,421.7
Total liabilities and stockholders' equity	\$ 143,409.7	\$ 154,520.2

See accompanying notes.

Table of Contents**Principal Financial Group, Inc.
Consolidated Statements of Operations****(Unaudited)**

	For the three months ended September 30,		For the nine months ended September 30,	
	2008	2007	2008	2007
	(in millions, except per share data)			
Revenues				
Premiums and other considerations	\$ 1,049.7	\$ 1,171.4	\$ 3,258.9	\$ 3,456.0
Fees and other revenues	599.0	738.5	1,834.9	1,953.9
Net investment income	1,079.7	1,029.0	3,031.0	2,928.8
Net realized/unrealized capital gains (losses)	(230.6)	(89.3)	(468.1)	3.7
Total revenues	2,497.8	2,849.6	7,656.7	8,342.4
Expenses				
Benefits, claims and settlement expenses	1,597.2	1,643.2	4,703.2	4,725.9
Dividends to policyholders	70.4	73.9	210.2	221.9
Operating expenses	734.1	800.9	2,229.2	2,316.0
Total expenses	2,401.7	2,518.0	7,142.6	7,263.8
Income from continuing operations before income taxes	96.1	331.6	514.1	1,078.6
Income taxes (benefits)	(2.2)	90.9	56.8	260.3
Income from continuing operations, net of related income taxes	98.3	240.7	457.3	818.3
Loss from discontinued operations, net of related income taxes		(0.2)		(0.4)
Net income	98.3	240.5	457.3	817.9
Preferred stock dividends	8.2	8.2	24.7	24.7
Net income available to common stockholders	\$ 90.1	\$ 232.3	\$ 432.6	\$ 793.2
Earnings per common share				
Basic earnings per common share:				
Income from continuing operations, net of related income taxes	\$ 0.35	\$ 0.88	\$ 1.67	\$ 2.97
Loss from discontinued operations, net of related income taxes			—	—
Net income	\$ 0.35	\$ 0.88	\$ 1.67	\$ 2.97
Diluted earnings per common share:				
Income from continuing operations, net of related income taxes	\$ 0.35	\$ 0.87	\$ 1.66	\$ 2.94
Loss from discontinued operations, net of related income taxes			—	—
Net income	\$ 0.35	\$ 0.87	\$ 1.66	\$ 2.94

See accompanying notes.

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Principal Financial Group, Inc.
Consolidated Statements of Stockholders' Equity

(Unaudited)

	Series A preferred stock	Series B preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total stockholders equity						
(in millions)														
Balances at January 1, 2007	\$	0.1	\$	3.8	\$	8,141.8	\$	2,824.1	\$	846.9	\$	(3,955.9)	\$	7,860.8
Common stock issued					49.5									49.5
Capital transactions of equity method investee, net of related income taxes					0.8									0.8
Stock-based compensation and additional related tax benefits					58.7									58.7
Treasury stock acquired, common												(436.2)		(436.2)
Dividends to preferred stockholders						(24.7)								(24.7)
Comprehensive income:														
Net income						817.9								817.9
Net unrealized losses, net											(492.3)			(492.3)
Foreign currency translation adjustment, net of related income taxes											35.2			35.2
Unrecognized post-retirement benefit obligation, net of related income taxes											(1.4)			(1.4)
Comprehensive income														359.4
Balances at September 30, 2007	\$	0.1	\$	3.8	\$	8,250.8	\$	3,617.3	\$	388.4	\$	(4,392.1)	\$	7,868.3
Balances at January 1, 2008	\$	0.1	\$	3.9	\$	8,295.4	\$	3,414.3	\$	420.2	\$	(4,712.2)	\$	7,421.7
Common stock issued					31.5									31.5
Capital transactions of equity method					0.3									0.3

Table of Contents**Principal Financial Group, Inc.
Consolidated Statements of Cash Flows****(Unaudited)**

	For the nine months ended September 30,	
	2008	2007
	(in millions)	
Operating activities		
Net income	\$ 457.3	\$ 817.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations, net of related income taxes		0.4
Amortization of deferred policy acquisition costs	212.6	292.2
Additions to deferred policy acquisition costs	(540.1)	(416.6)
Accrued investment income	(32.8)	(38.1)
Net cash flows from trading securities	(451.9)	(196.6)
Premiums due and other receivables	10.0	234.4
Contractholder and policyholder liabilities and dividends	1,747.0	1,593.4
Current and deferred income taxes (benefits)	(93.5)	96.0
Net realized/unrealized capital (gains) losses	468.1	(3.7)
Depreciation and amortization expense	105.4	86.2
Mortgage loans held for sale, acquired or originated	(56.4)	