

PRINCIPAL FINANCIAL GROUP INC

Form 10-Q

October 31, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549



## **FORM 10-Q**

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

**For the quarterly period ended September 30, 2007**



OR





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

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1-16725

(Commission file number)



**PRINCIPAL FINANCIAL GROUP, INC.**

(Exact name of registrant as specified in its charter)



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**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)

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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

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 24, 2007 was 261,595,670.

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PRINCIPAL FINANCIAL GROUP, INC.

TABLE OF CONTENTS

	<b>Page</b>
<b><u>Part I - FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	
<u>Financial Statements</u>	3
<u>Consolidated Statements of Financial Position at September 30, 2007 (Unaudited) and December 31, 2006</u>	3
<u>Unaudited Consolidated Statements of Operations for the three and nine months ended September 30, 2007 and 2006</u>	4
<u>Unaudited Consolidated Statements of Stockholders' Equity for the nine months ended September 30, 2007 and 2006</u>	5
<u>Unaudited Consolidated Statements of Cash Flows for the nine months ended September 30, 2007 and 2006</u>	6
<u>Notes to Unaudited Consolidated Financial Statements - September 30, 2007</u>	8
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	35
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	74
<u>Item 4.</u>	
<u>Controls and Procedures</u>	79
<b><u>Part II - OTHER INFORMATION</u></b>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	80
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	80
<u>Item 6.</u>	
<u>Exhibits</u>	81
<u>Signature</u>	82



**PART I FINANCIAL INFORMATION**



**Item 1. Financial Statements**



**Principal Financial Group, Inc.**  
**Consolidated Statements of Financial Position**

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	September 30, 2007 (Unaudited)	December 31, 2006
(in millions)		
<b>Assets</b>		
Fixed maturities, available-for-sale	\$ 45,868.5	\$ 44,403.5
Fixed maturities, trading	485.4	323.4
Equity securities, available-for-sale	380.3	666.6
Equity securities, trading	244.0	181.0
Mortgage loans	12,290.8	11,663.9
Real estate	908.2	867.0
Policy loans	844.3	850.7
Other investments	1,879.7	1,410.7
Total investments	62,901.2	60,366.8
Cash and cash equivalents	2,558.7	1,590.8
Accrued investment income	761.5	723.5
Premiums due and other receivables	904.7	1,252.3
Deferred policy acquisition costs	2,687.7	2,418.9
Property and equipment	450.8	422.5
Goodwill	370.9	361.9
Other intangibles	1,013.3	981.0
Separate account assets	82,280.5	73,779.6
Other assets	1,688.6	1,760.8
Total assets	\$ 155,617.9	\$ 143,658.1
<b>Liabilities</b>		
Contractholder funds	\$ 39,086.3	\$ 36,799.0
Future policy benefits and claims	18,091.6	17,332.6
Other policyholder funds	537.4	619.4
Short-term debt	56.7	84.1
Long-term debt	1,523.3	1,553.8
Income taxes currently payable	2.0	4.2
Deferred income taxes	687.7	917.2
Separate account liabilities	82,280.5	73,779.6
Other liabilities	5,484.1	4,707.4
Total liabilities	147,749.6	135,797.3
<b>Stockholders' equity</b>		
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 2007 and 2006		
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 2007 and 2006	0.1	0.1
Common stock, par value \$.01 per share - 2,500.0 million shares authorized, 385.2 million and 383.6 million shares issued, and 262.5 million and 268.4 million shares outstanding in 2007 and 2006, respectively	3.8	3.8
Additional paid-in capital	8,250.8	8,141.8
Retained earnings	3,617.3	2,824.1
Accumulated other comprehensive income	388.4	846.9
Treasury stock, at cost (122.7 million and 115.2 million shares in 2007 and 2006, respectively)	(4,392.1)	(3,955.9)
Total stockholders' equity	7,868.3	7,860.8
Total liabilities and stockholders' equity	\$ 155,617.9	\$ 143,658.1

See accompanying notes.

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

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	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(in millions, except per share data)			
<b>Revenues</b>				
Premiums and other considerations	\$ 1,171.4	\$ 1,060.0	\$ 3,456.0	\$ 3,206.4
Fees and other revenues	738.5	465.3	1,953.9	1,387.5
Net investment income	1,028.9	931.0	2,928.4	2,694.6
Net realized/unrealized capital gains (losses)	(89.3)	(6.7)	3.7	23.1
Total revenues	2,849.5	2,449.6	8,342.0	7,311.6
<b>Expenses</b>				
Benefits, claims, and settlement expenses	1,643.2	1,426.2	4,725.9	4,227.6
Dividends to policyholders	73.9	73.0	221.9	217.4
Operating expenses	800.9	619.5	2,316.0	1,865.8
Total expenses	2,518.0	2,118.7	7,263.8	6,310.8
Income from continuing operations before income taxes	331.5	330.9	1,078.2	1,000.8
Income taxes	91.0	72.1	260.3	229.4
Income from continuing operations, net of related income taxes	240.5	258.8	817.9	771.4
Income from discontinued operations, net of related income taxes		0.4		0.5
Net income	240.5	259.2	817.9	771.9
Preferred stock dividends	8.2	8.2	24.7	24.7
Net income available to common stockholders	\$ 232.3	\$ 251.0	\$ 793.2	\$ 747.2
<b>Earnings per common share</b>				
Basic earnings per common share:				
Income from continuing operations, net of related income taxes	\$ 0.88	\$ 0.93	\$ 2.97	\$ 2.73
Income from discontinued operations, net of related income taxes			—	—
Net income	\$ 0.88	\$ 0.93	\$ 2.97	\$ 2.73
Diluted earnings per common share:				
Income from continuing operations, net of related income taxes	\$ 0.87	\$ 0.92	\$ 2.94	\$ 2.70
Income from discontinued operations, net of related income taxes			—	—
Net income	\$ 0.87	\$ 0.92	\$ 2.94	\$ 2.70

See accompanying notes.



**Principal Financial Group, Inc.**  
**Consolidated Statements of Stockholders Equity**  
**(Unaudited)**

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	Series A preferred stock	Series B preferred stock	Common stock	Additional paid-in capital	Retained earnings  (in millions)	Accumulated other comprehensive income	Treasury stock	Total stockholders equity
<b>Balances at January 1, 2006</b>	\$	\$ 0.1	\$ 3.8	\$ 8,000.0	\$ 2,008.6	\$ 994.8	\$ (3,200.1)	\$ 7,807.2
Common stock issued				51.6				51.6
Capital transactions of equity method investee, net of related income taxes				1.4				1.4
Stock-based compensation and additional related tax benefits				53.6				53.6
Treasury stock acquired, common							(755.7)	(755.7)
Dividends to preferred stockholders					(24.7)			(24.7)
Comprehensive income:								
Net income					771.9			771.9
Net unrealized losses, net						(207.4)		(207.4)
Foreign currency translation adjustment, net of related income taxes								