

PRINCIPAL FINANCIAL GROUP INC
Form 10-Q
August 01, 2007

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 June 30, 2007

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 ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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The total number of shares of the registrant's Common Stock, \$0.01 par value, outstanding as of July 25, 2007 was 265,615,571.

PRINCIPAL FINANCIAL GROUP, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Principal Financial Group, Inc.

Consolidated Statements of Financial Position

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	June 30, 2007 (Unaudited) (in millions)	December 31, 2006
Assets		
Fixed maturities, available-for-sale	\$ 44,402.4	\$ 44,403.5
Fixed maturities, trading	437.8	323.4
Equity securities, available-for-sale	363.5	666.6
Equity securities, trading	237.1	181.0
Mortgage loans	12,086.2	11,663.9
Real estate	882.5	867.0
Policy loans	850.6	850.7
Other investments	1,776.6	1,410.7
Total investments	61,036.7	60,366.8
Cash and cash equivalents	1,858.0	1,590.8
Accrued investment income	702.2	723.5
Premiums due and other receivables	936.1	1,252.3
Deferred policy acquisition costs	2,654.5	2,418.9
Property and equipment	443.4	422.5
Goodwill	360.4	361.9
Other intangibles	953.5	981.0
Separate account assets	80,147.1	73,779.6
Other assets	1,666.4	1,760.8
Total assets	\$ 150,758.3	\$ 143,658.1
Liabilities		
Contractholder funds	\$ 37,476.8	\$ 36,799.0
Future policy benefits and claims	17,719.2	17,332.6
Other policyholder funds	644.3	619.4
Short-term debt	58.2	84.1
Long-term debt	1,536.4	1,553.8
Income taxes currently payable	1.4	4.2
Deferred income taxes	754.7	917.2
Separate account liabilities	80,147.1	73,779.6
Other liabilities	4,433.5	4,707.4
Total liabilities	142,771.6	135,797.3
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 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, 384.9 million and 383.6 million shares issued, and 266.0 million and 268.4 million shares outstanding in 2007 and 2006, respectively	3.8	3.8
Additional paid-in capital	8,223.7	8,141.8
Retained earnings	3,385.0	2,824.1
Accumulated other comprehensive income	554.0	846.9
Treasury stock, at cost (118.9 million and 115.2 million shares in 2007 and 2006, respectively)	(4,179.9)	(3,955.9)
Total stockholders' equity	7,986.7	7,860.8
Total liabilities and stockholders' equity	\$ 150,758.3	\$ 143,658.1

See accompanying notes.

Principal Financial Group, Inc.

Consolidated Statements of Operations

(Unaudited)

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	For the three months ended June 30, 2007		For the six months ended June 30, 2007	
	2006		2006	
	(in millions, except per share data)			
Revenues				
Premiums and other considerations	\$ 1,176.9	\$ 1,104.6	\$ 2,284.6	\$ 2,146.4
Fees and other revenues	622.9	462.6	1,215.4	922.2
Net investment income	976.4	911.7	1,899.5	1,763.6
Net realized/unrealized capital gains (losses)	55.4	(19.1)	93.0	29.8
Total revenues	2,831.6	2,459.8	5,492.5	4,862.0
Expenses				
Benefits, claims, and settlement expenses	1,584.7	1,459.6	3,082.7	2,801.4
Dividends to policyholders	74.0	72.5	148.0	144.4
Operating expenses	760.4	631.1	1,515.1	1,246.3
Total expenses	2,419.1	2,163.2	4,745.8	4,192.1
Income from continuing operations before income taxes	412.5	296.6	746.7	669.9
Income taxes	100.4	77.7	169.3	157.3
Income from continuing operations, net of related income taxes	312.1	218.9	577.4	512.6
Income (loss) from discontinued operations, net of related income taxes		(0.1)		0.1
Net income	312.1	218.8	577.4	512.7
Preferred stock dividends	8.3	8.3	16.5	16.5
Net income available to common stockholders	\$ 303.8	\$ 210.5	\$ 560.9	\$ 496.2
Earnings per common share				
Basic earnings per common share:				
Income from continuing operations, net of related income taxes	\$ 1.14	\$ 0.77	\$ 2.09	\$ 1.79
Income from discontinued operations, net of related income taxes			—	—
Net income	\$ 1.14	\$ 0.77	\$ 2.09	\$ 1.79
Diluted earnings per common share:				
Income from continuing operations, net of related income taxes	\$ 1.12	\$ 0.76	\$ 2.07	\$ 1.78
Income from discontinued operations, net of related income taxes			—	—
Net income	\$ 1.12	\$ 0.76	\$ 2.07	\$ 1.78

See accompanying notes.

Principal Financial Group, Inc.

Consolidated Statements of Stockholders' Equity

(Unaudited)

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	Series A preferred stock (in millions)	Series B preferred stock	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Treasury stock	Total stockholders equity
Balances at January 1, 2006	\$	\$ 0.1	\$ 3.8	\$ 8,000.0	\$ 2,008.6	\$ 994.8	\$ (3,200.1)	\$ 7,807.2
Common stock issued				38.3				38.3
Capital transactions of equity method investee, net of related income taxes				0.8				0.8
Stock-based compensation and additional related tax benefits				29.7				29.7
Treasury stock acquired, common							(751.2)	(751.2)
Dividends to preferred stockholders					(16.5)			(16.5)
Comprehensive loss:								
Net income					512.7			512.7
Net unrealized losses, net						(743.4)		(743.4)
Foreign currency translation adjustment, net of related income taxes						(32.9)		(32.9)
Comprehensive loss								(263.6)
Balances at June 30, 2006	\$	\$ 0.1	\$ 3.8	\$ 8,068.8	\$ 2,504.8	\$ 218.5	\$ (3,951.3)	\$ 6,844.7
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				38.5				38.5
Capital transactions of equity method investee, net of related income taxes				0.2				0.2
Stock-based compensation and additional related tax benefits				43.2				43.2
Treasury stock acquired, common							(224.0)	(224.0)
Dividends to preferred stockholders					(16.5)			(16.5)
Comprehensive income:								
Net income					577.4			577.4
Net unrealized losses, net						(328.5)		(328.5)
Foreign currency translation adjustment, net of related income taxes						36.5		36.5
Unrecognized post-retirement benefit obligation, net of related income taxes						(0.9)		(0.9)
Comprehensive income								284.5
Balances at June 30, 2007	\$	\$ 0.1	\$ 3.8	\$ 8,223.7	\$ 3,385.0	\$ 554.0	\$ (4,179.9)	\$ 7,986.7

See accompanying notes.

Principal Financial Group, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

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	For the six months ended June 30, 2007		2006
	(in millions)		
Operating activities			
Net income	\$	577.4	\$ 512.7
Adjustments to reconcile net income to net cash provided by operating activities:			
Income from discontinued operations, net of related income taxes			(0.1)
Amortization of deferred policy acquisition costs	150.5		136.6
Additions to deferred policy acquisition costs	(252.8)		(245.0)
Accrued investment income	21.3		16.8
Net cash flows from trading securities	(157.8)		(128.5)
Premiums due and other receivables	186.6		(22.8)
Contractholder and policyholder liabilities and dividends	1,010.8		784.3
Current and deferred income taxes	26.7		(34.9)
Net realized/unrealized capital gains	(93.0)		(29.8)
Depreciation and amortization expense	66.9		47.4
Mortgage loans held for sale, acquired or originated	(52.5)		(282.4)
Mortgage loans held for sale, sold or repaid, net of gain	128.4		564.6
Real estate acquired through operating activities	(28.2)		(14.7)
Real estate sold through operating activities	46.8		11.8
Stock-based compensation	37.3		28.9
Other	253.5		(105.8)
Net adjustments	1,344.5		726.4
Net cash provided by operating activities	1,921.9		1,239.1
Investing activities			
Available-for-sale securities:			
Purchases	(5,067.2)		(4,384.4)
Sales	2,265.5		745.3
Maturities	2,356.7		1,873.0
Mortgage loans acquired or originated	(1,336.8)		(1,542.5)
Mortgage loans sold or repaid	862.4		1,192.3
Real estate acquired	(61.9)		(18.1)
Real estate sold	5.7		11.4
Net purchases of property and equipment	(46.1)		(23.2)
Purchases of interest in subsidiaries, net of cash acquired			(5.5)
Net change in other investments	(16.9)		84.3
Net cash used in investing activities	\$ (1,038.6)		\$ (2,067.4)

Principal Financial Group, Inc.
Consolidated Statements of Cash Flows (continued)
(Unaudited)

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	For the six months ended, June 30,	
	2007	2006
	(in millions)	
Financing activities		
Issuance of common stock	\$ 38.5	\$ 38.3
Acquisition of treasury stock	(224.0)	(751.2)
Proceeds from financing element derivatives	76.2	81.3
Payments for financing element derivatives	(69.1)	(69.9)
Excess tax benefits from share-based payment arrangements	6.1	2.6
Dividends to preferred stockholders	(16.5)	(16.5)
Issuance of long-term debt	8.3	8.7
Principal repayments of long-term debt	(22.6)	(6.3)
Net repayments of short-term borrowings	(26.1)	(49.6)
Investment contract deposits	4,015.3	4,861.6
Investment contract withdrawals	(4,510.4)	(3,771.4)
Net increase in banking operation deposits	108.2	75.4
Net cash provided by (used in) financing activities	(616.1)	403.0
Discontinued operations		
Net cash provided by operating activities		1.5
Net cash used in investing activities		(0.6)
Net cash provided by discontinued operations		0.9
Net increase (decrease) in cash and cash equivalents	267.2	(424.4)
Cash and cash equivalents at beginning of period	1,590.8	1,641.3
Cash and cash equivalents at end of period	\$ 1,858.0	\$ 1,216.9
Cash and cash equivalents of discontinued operations included above		
At beginning of period	\$	\$ 2.0
At end of period	\$	\$ 2.9

See accompanying notes.

Principal Financial Group, Inc.

**Notes to Consolidated Financial Statements
June 30, 2007**

(Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of Principal Financial Group, Inc. (PFG), its majority-owned subsidiaries and its consolidated variable interest entities (VIEs), have been prepared in conformity with accounting principles generally accepted in the U.S. (U.S. GAAP) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2007, are not necessarily indicative of the results that may be expected for the year ended December 31, 2007. These interim unaudited consolidated financial statements should be read in conjunction with our annual audited financial statements as of December 31, 2006, included in our Form 10-K for the year ended December 31, 2006, filed with the United States Securities and Exchange Commission (SEC). The accompanying consolidated statement of financial position as of December 31, 2006, has been derived from the audited consolidated statement of financial position but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

Reclassifications have been made to the June 30, 2006, financial statements to conform to the June 30, 2007, presentation.

Recent Accounting Pronouncements

On June 11, 2007, the Accounting Standards Executive Committee (AcSEC) issued Statement of Position (SOP) 07-1, *Clarification of the Scope of the Audit and Accounting Guide Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* (SOP 07-1). This SOP provides guidance for determining whether an entity is within the scope of the American Institute of Certified Public Accountants (AICPA) *Audit and Accounting Guide for Investment Companies* (the Guide). This SOP also addresses whether the specialized industry accounting principles of the Guide should be retained by a parent company in consolidation or by an investor that has the ability to exercise significant influence over the investment company and applies the equity method of accounting to its investment in the entity. In addition, this SOP includes certain disclosure requirements for parent companies and equity method investors in investment companies that retain investment company accounting in the parent company's consolidated financial statements or the financial statements of an equity method investor. The provisions of this SOP are effective for fiscal years beginning on or after December 15, 2007, with earlier application encouraged. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

On February 15, 2007, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose, at specified election dates, to measure eligible financial instruments and certain other items at fair value that are not currently required to be reported at fair value. Unrealized gains and losses on items for which the fair value option is elected shall be reported in net income. The decision about whether to elect the fair value option (1) is applied instrument by instrument, with certain exceptions; (2) is irrevocable; and (3) is applied to an entire instrument and not only to specified risks, specific cash flows, or portions of that instrument. SFAS 159 also requires additional disclosures that are intended to facilitate comparisons between entities that choose different measurement attributes for similar assets and liabilities and between assets and liabilities in the financial statements of an entity that selects different measurement attributes for similar assets and liabilities. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. At the effective date, the fair value option may be elected for eligible items that exist at that date and the effect of the first remeasurement to fair value for those items should be reported as a cumulative effect adjustment to the opening balance of retained earnings. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

1. Nature of Operations and Significant Accounting Policies (continued)

On July 13, 2006, the FASB issued FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48, which is an interpretation of SFAS No. 109, *Accounting for Income Taxes*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. FIN 48 requires the affirmative evaluation that it is more likely than not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements. FIN 48 also requires companies to disclose additional quantitative and qualitative information in their financial statements about uncertain tax positions. We adopted FIN 48 on January 1, 2007, which did not have a material impact on our consolidated financial statements. See Note 3, Federal Income Taxes, for further details.

On March 17, 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets* (SFAS 156), which amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140). This Statement (1) requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in specified situations, (2) requires all separately recognized servicing assets and liabilities to be initially measured at fair value, (3) for subsequent measurement of each class of separately recognized servicing assets and liabilities, an entity can elect either the amortization or fair value measurement method, (4) permits a one-time reclassification of available-for-sale (AFS) securities to trading securities by an entity with recognized servicing rights, without calling into question the treatment of other AFS securities, provided the AFS securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value, and (5) requires separate presentation of servicing assets and liabilities measured at fair value in the statement of financial position and also requires additional disclosures. The initial measurement requirements of this Statement should be applied prospectively to all transactions entered into after the fiscal year beginning after September 15, 2006. The election related to the subsequent measurement of servicing assets and liabilities is also effective the first fiscal year beginning after September 15, 2006. We adopted SFAS 156 on January 1, 2007, and have not elected to subsequently measure any of our servicing rights at fair value or reclassify any AFS securities to trading. The prospective aspects of SFAS 156 are not expected to have a material impact on our consolidated financial statements.

On February 16, 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140* (SFAS 155), which amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133) and SFAS 140. SFAS 155 (1) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (2) clarifies which interest-only and principal-only strips are not subject to the requirements of SFAS 133, (3) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (4) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (5) amends SFAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006. At adoption, the fair value election may also be applied to hybrid financial instruments that have been bifurcated under SFAS 133 prior to adoption of this Statement. Any changes resulting from the adoption of this Statement should be recognized as a cumulative effect adjustment to beginning retained earnings. We adopted SFAS 155 on January 1, 2007, and did not apply the fair value election to any existing hybrid financial instruments that had been bifurcated under SFAS 133 prior to adoption of SFAS 155. The prospective aspects of SFAS 155 are not expected to have a material impact on our consolidated financial statements.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

1. Nature of Operations and Significant Accounting Policies (continued)

On September 19, 2005, the AcSEC issued SOP 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts* (SOP 05-1). AcSEC defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. An internal replacement that is determined to result in a replacement contract that is substantially unchanged from the replaced contract should be accounted for as a continuation of the replaced contract. Contract modifications resulting in a replacement contract that is substantially changed from the replaced contract should be accounted for as an extinguishment of the replaced contract and any unamortized deferred policy acquisition costs, unearned revenue liabilities, and deferred sales inducement costs from the replaced contract should be written off and acquisition costs on the new contract capitalized as appropriate. This SOP is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. As of January 1, 2007, we adopted SOP 05-1, which did not have a material impact on our consolidated financial statements.

Separate Accounts

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As of June 30, 2007, and December 31, 2006, the separate accounts include a separate account valued at \$693.5 million and \$768.4 million, respectively, which primarily includes shares of our stock that were allocated and issued to eligible participants of qualified employee benefit plans administered by us as part of the policy credits issued under our 2001 demutualization. These shares are included in both basic and diluted earnings per share calculations. The separate account shares are recorded at fair value and are reported as separate account assets and separate account liabilities in the consolidated statements of financial position. Changes in fair value of the separate account shares are reflected in both the separate account assets and separate account liabilities and do not impact our results of operations.

2. Significant Unconsolidated Variable Interest Entities

Synthetic Collateralized Debt Obligation. On June 14, 2007, we invested \$100.0 million in a secured limited recourse note issued by a segregated portfolio company. The note represents Class B-1 notes. Class A notes are senior and Class C through Class E notes are subordinated to Class B notes. The entity entered into a credit default swap with a third party providing credit protection in exchange for a fee. Defaults in an underlying reference portfolio will only affect the note if cumulative losses of a synthetic reference portfolio exceed the loss attachment point on the portfolio. We have determined we are not the primary beneficiary, as we do not hold the majority of the risk of loss. Our maximum exposure to loss as a result of our involvement with this entity is our recorded investment of \$100.0 million as of June 30, 2007.

3. Federal Income Taxes

The effective income tax rates for the three and six months ended June 30, 2007, were lower than the corporate income tax rate of 35% primarily due to income tax deductions allowed for corporate dividends received and interest exclusion from taxable income. The effective income tax rate for the six months ended June 30, 2007, is also lower than the prevailing corporate federal income tax rate due to tax credits received on our investment in a synthetic fuel production facility. The effective income tax rates for the three and six months ended June 30, 2006, were lower than the corporate income tax rate of 35% primarily due to income tax deductions allowed for corporate dividends received and interest exclusion from taxable income. The effective income tax rate for the six months ended June 30, 2006, is also lower than the prevailing corporate federal income tax rate due to a favorable court ruling on a contested Internal Revenue Service (the Service) issue for 1991 and later years.

Principal Financial Group, Inc.
Notes to Consolidated Financial Statements (continued)
June 30, 2007
(Unaudited)

3. Federal Income Taxes (continued)

We adopted the provisions of FIN 48 on January 1, 2007. The application of FIN 48 did not have a material impact on our consolidated financial statements. As of January 1, 2007, the total unrecognized benefits were \$60.0 million. Of this amount, \$20.3 million, if recognized, would reduce the 2007 effective tax rate. The remaining \$39.7 million of unrecognized benefits relate to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Recognition of these benefits will have no effect on the annual effective tax rate, but could accelerate the payment of cash to the taxing authority to an earlier period.

We recognize interest and penalties related to uncertain tax positions in operating expenses. As of January 1, 2007, we had recognized \$15.7 million of accumulated pre-tax interest related to unrecognized tax benefits existing at the date of adoption.

The Service has completed examinations of the U.S. consolidated federal income tax returns for 2003 and prior years. The Service has recently commenced the audit of our federal income tax returns for the years 2004 and 2005. We do not expect the results of these audits to significantly increase or decrease the total amount of unrecognized tax benefits in the next twelve months, but the outcome of tax reviews is uncertain, and unforeseen results can occur.

4. Employee and Agent Benefits

Components of net periodic benefit cost (income):

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	Pension benefits For the three months ended June 30, 2007		Other postretirement benefits For the three months ended June 30, 2007	
	2007	2006	2007	2006
	(in millions)			
Service cost	\$ 11.8	\$ 11.7	\$ 2.0	\$ 2.4
Interest cost	22.4	20.4	3.9	4.0
Expected return on plan assets	(28.6)	(26.3)	(8.4)	(8.1)
Amortization of prior service benefit	(2.1)	(2.2)	(0.7)	(0.7)
Recognized net actuarial loss (gain)	2.5	5.1	(0.5)	0.1
Net periodic benefit cost (income)	\$ 6.0	\$ 8.7	\$ (3.7)	\$ (2.3)

	Pension benefits For the six months ended June 30, 2007		Other postretirement benefits For the six months ended June 30, 2007	
	2007	2006	2007	2006
	(in millions)			
Service cost	\$ 23.5	\$ 23.5	\$ 4.0	\$ 4.7
Interest cost	44.8	40.8	7.7	8.1
Expected return on plan assets	(57.1)	(52.7)	(16.8)	(16.2)
Amortization of prior service benefit	(4.2)	(4.5)	(1.3)	(1.3)
Recognized net actuarial loss (gain)	5.0	10.2	(0.9)	0.1
Net periodic benefit cost (income)	\$			