

Edgar Filing: PRINCIPAL FINANCIAL GROUP INC - Form 8-K

PRINCIPAL FINANCIAL GROUP INC
Form 8-K
March 07, 2005

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report: FEBRUARY 28, 2005
(Date of earliest event reported)

PRINCIPAL FINANCIAL GROUP, INC.
(Exact name of registrant as specified in its charter)

| | | |
|---|--------------------------|--|
| DELAWARE | 1-16725 | 42-1520346 |
| (State or other jurisdiction of incorporation) | (Commission file number) | (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)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 1.01 ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT

Edgar Filing: PRINCIPAL FINANCIAL GROUP INC - Form 8-K

On February 28, 2005, the Human Resources Committee (the "Committee") of the Board of Directors of Principal Financial Group, Inc. (the "Company") approved the annual base salaries (effective as of March 5, 2005) of the Company's executive officers after a review of comparative compensation information, individual performance, internal equity and other factors as the Committee determined important. The following table sets forth the annual base salary levels of the Company's Named Executive Officers (which officers were determined by reference to the Company's proxy statement dated April 1, 2004) for 2005, compared to the actual salary paid in 2004:

| NAME AND POSITION | YEAR | BASE SALARY |
|--|------|--------------|
| J. Barry Griswell, Chairman, President and Chief Executive Officer | 2005 | \$ 1,000,000 |
| | 2004 | 1,038,000 |
| John E. Aschenbrenner, President, Insurance and Financial Services | 2005 | 530,000 |
| | 2004 | 521,000 |
| Michael H. Gersie, Executive Vice President, Global Asset Management | 2005 | 445,000 |
| | 2004 | 441,000 |
| James P. McCaughan, President, Global Asset Management | 2005 | 510,000 |
| | 2004 | 519,000 |
| Larry D. Zimpleman, President, Retirement and Investor Services | 2005 | 530,000 |
| | 2004 | 507,000 |

Also on February 28, 2005, the Committee authorized the payment of annual incentive awards to each of the Company's Named Executive Officers in respect of the year ended December 31, 2004. The annual incentive awards were made pursuant to the Company's broad-based annual incentive plan (the "PrinPay Plan"). In February 2004, the Committee approved the following components upon which to base awards for senior officers under the PrinPay Plan for 2004: (1) Company performance and individual performance in the case of the Chief Executive Officer and senior officers with service unit responsibilities, and (2) Company performance, business unit performance and individual performance in the case of senior officers with business unit responsibilities.

In February 2004, the Committee decided a single metric relating to achievement of a stated level of operating earnings for the total organization would determine how the Company performed for purposes of the PrinPay Plan for 2004. The Committee established a level of operating earnings achievement as target performance for the Company component under the plan. "Operating earnings" is a non-GAAP financial measure used as the key financial measure in the Company's industry. It is believed to best illustrate the performance of a Company's normal, ongoing operations, which is important in understanding and evaluating financial condition and results of operations on a basis comparable to that used by securities analysts.

In approving the PrinPay awards for 2004, the Committee determined that the result obtained for Company performance should be set at 120% of the target. This determination of Company performance affected all participants. The extent to which the Company performance result affected any particular participant depended on the relative weight of the Company performance component to any other business unit components applicable to the participant. After the

Edgar Filing: PRINCIPAL FINANCIAL GROUP INC - Form 8-K

Committee assessed the Company's and applicable business unit performance for the year and took into account the limitations stated in the plan (including, without limitation, the attainment of certain minimum threshold performance objectives), a final award was approved for each senior officer. The final award approved for each senior officer took into account the Committee's assessment of his or her performance based on the officer's level of achievement of the individual goals the Committee established for that officer at the beginning of the year. The individual goals for the Named Executive Officers related to achievement of targeted levels of Company and applicable business unit performance with respect to operating earnings, as well as other performance measures and corresponding targets for business unit and individual performance the Committee determined were important in furthering achievement of the objectives and initiatives of the organization. For 2004, the Committee approved for eligible senior officers, including the Named Executive Officers, target awards at ranges of 50% to 250% of base salary for achieving performance at target and maximum awards of 100% to 500% of base salary for achieving performance above target. Attainment of individual performance targets varied among Named Executive Officers.

2

The following table sets forth cash payments to the Named Executive Officers in respect of their annual incentive awards under the PrinPay Plan for 2004 and 2003:

| NAME | YEAR | ANNUAL INCEN |
|-------------------|------|--------------|
| Mr. Griswell | 2004 | \$ 1,800, |
| | 2003 | 1,318, |
| Mr. Aschenbrenner | 2004 | 624, |
| | 2003 | 359, |
| Mr. Gersie | 2004 | 397, |
| | 2003 | 323, |
| Mr. McCaughan | 2004 | 1,661, |
| | 2003 | 1,412, |
| Mr. Zimpleman | 2004 | 530, |
| | 2003 | 367, |

In addition to approving the annual incentive awards for the Named Executive Officers for 2004, the Committee on February 28, 2005 made decisions for the performance period of January 1, 2005 to December 31, 2005 with respect to the Principal Financial Group, Inc. Annual Incentive Plan (the "Annual Incentive Plan") approved by shareholders in May 2004, to be effective January 1, 2005. On February 28, 2005, the Committee affirmed the incentive pool for the performance period as defined in the Plan and determined that the participants in the plan will include the Chief Executive Officer and each other "covered employee" within the meaning of 162(m)(3) of the Internal Revenue Code. The Committee also determined that the maximum award for the performance period for the Chief Executive Officer will be 40% of the incentive pool, the maximum award for the second highest "covered employee" will be 20% of the incentive pool, and the

Edgar Filing: PRINCIPAL FINANCIAL GROUP INC - Form 8-K

maximum award for each of the other participants will be 13.3% of the incentive pool. The Committee intends to administer the Annual Incentive Plan through the use of negative discretion and subject to the achievement of the applicable performance criteria (without regard to any adjustment that may increase the amounts payable), so that the actual annual awards payable to any such officer do not exceed the amount that would have been payable based on the same performance measures, components and weightings as those that would have been applicable to such senior officers under the PrinPay Plan. For 2005, the Committee decided that the Company's achievement against a stated level of operating earnings would be the sole determiner of Company performance under the PrinPay Plan.

Beginning in 2004, the Committee determined that the long-term incentive plan for senior officers would consist of stock-based compensation awards under the Company's Stock Incentive Plan. Prior to 2004, the Company also made awards under a long-term plan that existed before the Company became publicly-held in 2001, the "Long-Term Performance Plan." The Company's Long-Term Performance Plan affords eligible executives, including the Named Executive Officers, the opportunity to share in the success of the Company if the Company achieves specified performance objectives over periods of three calendar years. The last three-year cycle under the Long-Term Performance Plan ends on December 31, 2005. On February 28, 2005, the Committee authorized payments to the Company's executive officers and other senior officers under the Long-Term Performance Plan for the three-year performance period ended on December 31, 2004, and awarded stock options and restricted stock units, as described below, under the Company's Stock Incentive Plan.

For the 2002 - 2004 performance period under the Long-Term Performance Plan, the Committee used two metrics: cumulative operating earnings for the three-year period, and return on average equity for the third year of the performance period. The target set for operating earnings performance was the sum of the individual years' targets for operating earnings. The target set for year-three return on average equity was based on goals agreed to by the Board and management for long-term growth and creation of long-term shareholder value.

In approving awards for the three-year performance period ended December 31, 2004, the Committee determined that the Company achieved its financial performance goals by achieving 70.59% of target levels of operating earnings and the year-three average return on equity. This determination of financial performance affected all participants.

The following table sets forth the long term incentive payouts to be made to the Company's Named Executive Officers in respect of the 2002 - 2004 performance period (which are payable in March 2005), as well as the long-term incentive payouts made to the Named Executive Officers in respect of the 2001 - 2003 performance period (which were paid in March 2004):

| NAME | PERFORMANCE PERIOD | LONG-TERM |
|--------------|------------------------|-----------|
| Mr. Griswell | 2002-2004 2001-2003 | \$ |

Edgar Filing: PRINCIPAL FINANCIAL GROUP INC - Form 8-K

| | | |
|-------------------|------------------------|----|
| Mr. Aschenbrenner | 2002-2004 2001-2003 | |
| Mr. Gersie | 2002-2004 2001-2003 | |
| Mr. McCaughan | 2002-2004 2001-2003 | No |
| Mr. Zimpleman | 2002-2004 2001-2003 | |

(1) The amounts shown in this table are awards under the Long-Term Performance Plan. For the three-year period 2001-2003, 100% of the long-term performance award opportunity for the Named Executive Officers was provided under the Long-Term Performance Plan. For the three-year period 2002-2004, 20% to 25% of the long-term performance award opportunity for the Named Executive Officers was provided under the Long-Term Performance Plan and 75% to 80% of the long-term performance award opportunity was provided under the Stock Incentive Plan, as described above.

Also on February 28, 2005, the Committee approved grants of non-qualified stock options and restricted stock units to each of the Named Executive Officers pursuant to the Stock Incentive Plan. The Committee determines the level of options and restricted stock units it could grant Named Executive Officers under the plan by considering the percentage of total compensation that competitors award in the form of options and other forms of equity compensation for comparable positions, and other factors the Committee deems important. Utilizing this information, the Committee sets target award opportunities for equity compensation, expressed as a percentage of base salary. Actual grants may vary from these targets based on a variety of factors such as individual performance and the importance of retaining the senior officer ("Adjusted Target Award Opportunity"). The Committee administers the plan so that actual grants typically do not exceed the sum of all grants if all grants were made at target. The Committee calculates the actual number of options it will award to a senior officer by dividing the present value of one option, utilizing the Black-Scholes model (but adjusting for the possibility of forfeitures of options), into the portion of the Adjusted Target Award Opportunity to be granted in options. The Committee calculates the actual number of restricted stock units it will award a senior officer by dividing the 20-day average stock price immediately preceding the grant date into the portion of the Adjusted Target Award Opportunity to be granted in restricted stock units. The following table sets forth information regarding grants of stock options and restricted stock unit awards to the Named Executive Officers made on February 28, 2005 and February 24, 2004.

| NAME | YEAR | NUMBER OF STOCK OPTIONS (1) (2) | EXERCISE PRICE PER SHARE (3) |
|-------------------|------|------------------------------------|---------------------------------|
| Mr. Griswell | 2005 | 408,235 | \$ 39.02 |
| | 2004 | 339,435 | 36.30 |
| Mr. Aschenbrenner | 2005 | 108,185 | 39.02 |
| | 2004 | 79,345 | 36.30 |

Edgar Filing: PRINCIPAL FINANCIAL GROUP INC - Form 8-K

| | | | |
|---------------|------|---------|-------|
| Mr. Gersie | 2005 | 68,125 | 39.02 |
| | 2004 | 50,850 | 36.30 |
| Mr. McCaughan | 2005 | 91,955 | 39.02 |
| | 2004 | 74,960 | 36.30 |
| Mr. Zimpleman | 2005 | 108,185 | 39.02 |
| | 2004 | 77,790 | 36.30 |

4

- (1) Options vest in three equal annual installments beginning on first anniversary of date of grant, subject to continuous employment.
- (2) Options granted to the Named Executive Officers under the Stock Incentive Plan are exercisable for ten years after the date of grant, generally subject to the optionee's continued service with the Company and its subsidiaries. Unvested options terminate upon termination of service, except in the event of such participant's death, disability or approved retirement. In the event of a participant's death, disability or approved retirement, options granted to the participant become immediately exercisable by the participant, or participant's beneficiary, if applicable, and may be exercised at any time prior to the earlier of the expiration of the remaining term of the option or three years from the date of death or termination of employment, as applicable. The Board amended the Stock Incentive Plan effective January 1, 2004 and January 1, 2005 to provide that for all future grants, options may be exercised for up to five and ten years, respectively, from approved retirement or until the options expire, whichever is shorter. The vesting of restricted stock units and options and the exercisability of the options may also accelerate upon the occurrence of a change of control, unless the options are honored or assumed on terms intended to preserve the value of the option for the optionee (including acceleration of vesting upon an involuntary termination following a change of control).
- (3) The per-share option exercise price equals the closing price of the Common Stock on the date of grant.
- (4) Restricted stock units vest on the third anniversary of the grant date.

The Company intends to provide additional information regarding the compensation awarded to the Named Executive Officers with respect to and during the year ended December 31, 2004, in the proxy statement for the Company's 2005 annual meeting of shareholders, which is expected to be filed with the Securities and Exchange Commission in March, 2005.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

- 10.1.1 Form of Restricted Stock Unit Award Agreement
- 10.1.2 Form of Stock Option Award Agreement

SIGNATURE

Edgar Filing: PRINCIPAL FINANCIAL GROUP INC - Form 8-K

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PRINCIPAL FINANCIAL GROUP, INC.

By: /S/ JOYCE N. HOFFMAN

Name: Joyce N. Hoffman
Title: Senior Vice President and
Corporate Secretary

Date: March 4, 2005

5

EXHIBIT 10.1.1

PRINCIPAL FINANCIAL GROUP, INC.
RESTRICTED STOCK UNIT AWARD AGREEMENT

This Agreement, dated as of DATE, is between Principal Financial Group, Inc. (the "Company") and you, <