

PRINCIPAL FINANCIAL GROUP INC  
Form DEF 14A  
April 09, 2007

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**PRINCIPAL FINANCIAL GROUP, INC.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.  
(1) Title of each class of securities to which transaction applies:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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April 9, 2007

Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders of Principal Financial Group, Inc., to be held on Tuesday, May 22, 2007, at 9:00 a.m., local time, at 711 High Street, Des Moines, Iowa.

If you received your annual meeting materials by mail, the notice of annual meeting, proxy statement and proxy card are enclosed. If you received your annual meeting materials via e-mail, the e-mail contains voting instructions and links to the annual report and the proxy statement on the Internet, available at [www.principal.com/proxy](http://www.principal.com/proxy).

The notice of annual meeting and proxy statement accompany this letter and provide an outline of the business to be conducted at the meeting. Also, I will report on the progress of the Company during the past year and answer shareholder questions.

The Company encourages you to read this proxy statement and vote your shares. You do not need to attend the annual meeting to vote. You may complete, date and sign the enclosed proxy card and return it in the envelope provided, or vote by proxy using the telephone or through the Internet. Thank you for acting promptly.

Sincerely,

J. BARRY GRISWELL  
*Chairman and Chief Executive Officer*

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**PRINCIPAL FINANCIAL GROUP, INC.**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**May 22, 2007**

The annual meeting of shareholders of Principal Financial Group, Inc. (the "Company") will be held at 711 High Street, Des Moines, Iowa, on Tuesday, May 22, 2007, at 9:00 a.m., local time. The purposes of the meeting are to:

1. Elect four Directors, each for a term of three years ending at the annual meeting to be held in 2010 or until their respective successors are elected and qualified;
2. Ratify the appointment of Ernst & Young LLP as the Company's independent auditors for the year ending December 31, 2007; and
3. Act on any other business as may properly come before the meeting or any adjournment or postponement of the meeting.

These items are fully described in the proxy statement, which is part of this notice. The Company has not received notice of other matters that may be properly presented at the annual meeting.

Only shareholders of record at the close of business on March 27, 2007, are entitled to vote at the meeting. It is important that your shares be represented and voted at the meeting. Whether or not you plan to attend the meeting, please vote in one of the following ways:

By telephone, call the toll-free telephone number shown on the proxy card;

Through the Internet, visit the website noted on the proxy card; or

Complete, sign and promptly return the enclosed proxy card in the postage-paid envelope provided.

Shareholders will need to register at the meeting and present photo identification to attend the meeting. If your shares are not registered in your name (for example, you hold the shares through an account with your stock broker), you will need to bring proof of your ownership of those shares to the meeting in order to register. You should ask the broker, bank or other institution that holds your shares to provide you with either a copy of an account statement or a letter that shows your ownership of Principal Financial Group, Inc. common stock on March 27, 2007. Please bring that documentation to the meeting to register.

By Order of the Board of Directors

JOYCE N. HOFFMAN  
*Senior Vice President and Corporate Secretary*

April 9, 2007

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**PROXY STATEMENT**

**PRINCIPAL FINANCIAL GROUP, INC.**

711 HIGH STREET  
DES MOINES, IOWA 50392-0100

**QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING**

**Why did I receive this proxy statement?**

The Board of Directors ("Board") of the Principal Financial Group, Inc. ("Company") is soliciting proxies to be voted at the annual meeting of shareholders to be held on May 22, 2007 at 9:00 a.m., local time, at 711 High Street, Des Moines, Iowa, and at any adjournment or postponement of the meeting ("Annual Meeting"). When the Board asks for your proxy, it must send you a proxy statement that contains information required by law.

**What is a proxy?**

It is your legal designation of another person to vote the stock you own. The other person is called a proxy. When you designate someone as your proxy in a written document, that document is also called a proxy or a proxy card. The Company has designated three of the Company's officers to act as proxies for the 2007 Annual Meeting: Michael H. Gersie, Executive Vice President and Chief Financial Officer, Joyce N. Hoffman, Senior Vice President and Corporate Secretary, and Karen E. Shaff, Executive Vice President and General Counsel.

**What will the shareholders vote on at the Annual Meeting?**

Election of Directors

Ratification of the appointment of independent auditors.

**Will there be any other items of business on the agenda?**

The Company does not expect any other items of business because the deadline for shareholder proposals and nominations has passed. However, if any other matter should properly come before the meeting, the people authorized by the accompanying proxy will vote according to their best judgment.

**Who can vote at the Annual Meeting?**

Shareholders as of the close of business on March 27, 2007 ("Record Date") can vote at the Annual Meeting.

**How many votes do I have?**

You will have one vote for every share of the common stock of Principal Financial Group, Inc. ("Common Stock") you owned on the Record Date.

**What constitutes a quorum?**

One-third of the outstanding shares of Common Stock as of the Record Date. On the Record Date, there were 267,433,474 shares of Common Stock issued and outstanding. A quorum must be present or represented before any action can be taken at the Annual Meeting, except an action to adjourn the meeting.

**How many votes are required for the approval of each item?**

The four nominees for Director who receive the most votes will be elected. A plurality of the shares voting is required for the election of Directors.

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The ratification of the appointment of the independent auditor will be approved if the votes cast for the proposal exceed those cast against the proposal.

Abstentions and broker non-votes will be treated as being present at the meeting for the purpose of determining a quorum but will not be counted as votes.

### **What are Broker Non-votes?**

If your shares are held in a brokerage account, your broker will ask you how you want your shares to be voted. If you give your broker directions, your shares will be voted as you direct. If you do not give instructions, the broker may vote your shares on routine items of business, but not on others. The items of business the broker does not vote on are called "broker non-votes."



### **How do I vote by proxy?**

Shareholders of record may vote by mail, by telephone or through the Internet. When using these methods, you may vote for or withhold your vote from each of the director nominees. You may vote "for" or "against" the item or "abstain" from voting on ratification of the independent auditor.

*By Mail.* Sign and date each proxy card you receive and return it in the prepaid envelope. Sign your name exactly as it appears on the proxy. If you are signing as a representative (for example, as an attorney-in-fact, executor, administrator, guardian, trustee or an officer or agent of a corporation or partnership), indicate your name and your title or capacity. If the stock is held in custody for a minor (for example, under the Uniform Transfers to Minors Act), the custodian should sign, not the minor. If the stock is held in joint ownership, one owner may sign on behalf of all owners.

*By Telephone.* Follow the instructions on the proxy card, or, if you received these materials electronically, follow the instructions in the e-mail message that notified you of their availability. Voting by telephone has the same effect as voting by mail. If you vote by telephone, do not return your proxy card. Telephone voting will be available until 1:00 a.m. Central Time on May 22, 2007.

*Through the Internet.* You may vote on line at [www.investorvote.com](http://www.investorvote.com). Follow the instructions on the enclosed proxy card, or, if you received these materials electronically, follow the instructions in the e-mail message that notified you of their availability. Voting through the Internet has the same effect as voting by mail. If you vote through the Internet, do not return your proxy card. Internet voting will be available until 1:00 a.m. Central Time on May 22, 2007.

### **How do I vote shares that are held by my broker?**

If you own shares held by a broker, you may instruct your broker or other nominee to vote your shares by following the instructions that your broker provides to you. Most brokers offer voting by mail, telephone and through the Internet.

### **How do I vote in person?**

If you are going to attend the Annual Meeting, you may vote your shares in person. However, we encourage you to vote by mail, telephone or through the Internet even if you plan to attend the meeting.

### **How do I vote my shares held in the Company's 401(k) plan?**

You can vote your shares held in the Company's 401(k) plan by telling the trustees of the plan how you want them to vote. You can give the trustees instructions by following the directions in the email or on the voting instruction card you received from Computershare. These instructions will provide an Internet voting site and links where you can review all proxy materials. The trustees vote shares for which voting instructions are not received in their discretion.

### **How are shares held in the demutualization separate account voted?**

The Company became a public company on October 26, 2001, when Principal Mutual Holding Company converted from a mutual insurance holding company to a stock company (the "Demutualization") and the initial public offering of shares of the Company's Common Stock was completed.

In connection with the Demutualization, the Company issued Common Stock to Principal Life Insurance Company ("Principal Life"), and Principal Life allocated this Common Stock to a separate account that was established to fund policy credits received as Demutualization compensation by certain employee benefit plans that owned group annuity contracts. Although Principal Life will vote these shares, the plans give Principal Life voting directions. A plan may give voting instructions by mail, telephone or through the Internet. Principal Life will vote the shares as to which it received no direction in the same manner, proportionally, as the shares in the Demutualization separate account for which it has received instructions.

### **Who counts the votes?**

Votes will be tabulated by Computershare Investor Services, LLC.



**What happens if I do not vote on an issue when returning my proxy?**

You should specify your choice on each issue on the proxy. If no specific instructions are given, proxies that are signed and returned will be voted for the election of all Director nominees and for the ratification of Ernst & Young LLP as independent auditors.

**What should I do if I want to attend the Annual Meeting?**

Please bring photo identification and the top portion of your proxy card with the heading "2007 Annual Meeting Admission Ticket" as evidence of your ownership of Common Stock as of March 27, 2007. Alternatively, a letter from your broker or bank or a photocopy of a current account statement will be accepted as evidence of ownership. A map of the location of the Annual Meeting is located on the admission ticket portion of your proxy card.

**How do I contact the Board?**

The Company has a process for shareholders and other parties to send communications to the Board through the Presiding Director. You may contact the Presiding Director of the Board through the Investor Relations section of the Company's website at [www.principal.com](http://www.principal.com), or by writing to:

Presiding Director, c/o Joyce N. Hoffman, Senior Vice President and Corporate Secretary  
Principal Financial Group  
Des Moines, Iowa 50392-0300

All e-mails and letters received will be categorized and processed by the Corporate Secretary and then forwarded to the Company's Presiding Director.

**How do I submit a shareholder proposal for the 2008 Annual Meeting?**

The Company's next annual meeting is scheduled for May 20, 2008. In order to have a shareholder proposal considered for inclusion for the 2008 annual meeting, it must be received by December 11, 2007. In addition, a proposal may not be presented at the 2008 annual meeting and no one may be nominated for election to the Board at that meeting unless the Company receives notice of the proposal or nomination between January 23, 2008 and February 22, 2008. Proposals should be addressed to the Corporate Secretary. Your notice must comply with certain other requirements set forth in the Company's By-Laws, which are on the Company's website: [www.principal.com](http://www.principal.com), and may be obtained from the Corporate Secretary.

**What is "householding?"**

We have adopted a procedure known as "householding," in which we send shareholders of record at the same address only one copy of the annual report and proxy statement unless we receive instructions from a shareholder requesting receipt of separate copies of these materials.

If you are a shareholder who shares the same address as other Company shareholders and would like to receive a separate copy of this proxy statement or the annual report, please call 800-986-3343, select option 4 twice, or write to the Company's Investor Relations Department, Principal Financial Group, Des Moines, Iowa, 50392-0420 Attention: Lorna Wieskamp. Indicate which materials you want and the address to which they should be mailed.

If you share the same address as multiple shareholders and would like the Company to send only one copy of future proxy statements, information statements and annual reports, please contact Computershare Investor Services, LLC at 866-781-1368, or write to it at P.O. Box 43078, Providence, RI 02940-3078.

**Where can I receive more information about the Company?**

We file reports and other information with the Securities and Exchange Commission ("SEC"). This information is available on the Company's website at [www.principal.com](http://www.principal.com) and at the Internet site maintained by the SEC at [www.sec.gov](http://www.sec.gov). You may also contact the SEC at 1-800-SEC-0330.

**The Board urges you to exercise your right to vote by returning the enclosed proxy card, or by using the telephone or the Internet.**



**PROPOSAL ONE ELECTION OF DIRECTORS**

**The Board of Directors recommends that shareholders vote "for" all the nominees.**

*Nominees for Class III Directors Whose Terms Expire in 2010*

The Board is divided into three classes. One class is elected each year to hold office for three years. At the 2007 Annual Meeting, four Directors will be elected to hold office until the annual meeting of shareholders in 2010 ("Class III Directors"). All of the nominees are currently Directors of the Company. David J. Drury is also a member of the Class of 2007, and is retiring from the Board at the 2007 Annual Meeting.

*Michael T. Dan* Age 56

Mr. Dan has been a Director of the Company and Principal Life since May of 2006. He has served as Chairman, President and Chief Executive Officer of The Brink's Company, a leading global security services firm, since 1999. A search firm identified Mr. Dan as a potential Director candidate.

*C. Daniel Gelatt, Ph.D.* Age 59

C. Daniel Gelatt has been a Director of the Company since 2001 and of Principal Life since 1988. Dr. Gelatt has been President of NMT Corporation, a computer software and microfilm service business, since 1986. He is also a director and President of these other Gelatt privately-owned companies: Advanced Marketing Concepts, Ltd., Elmwood Corporation, The Gelatt Corporation, Ginkgo, LLC, Gelatt Information Machines Corp. and Web-Rack LLC. He is a member of the LaCrosse Public Library Board and the Association for Computing Machinery. A Director of the Board in 1988 suggested Dr. Gelatt as a potential board candidate.

*Sandra L. Helton* Age 57

Sandra L. Helton has been a Director of the Company and Principal Life since 2001. Ms. Helton was Executive Vice President and Chief Financial Officer of Telephone & Data Systems, Inc., a diversified telecommunications corporation, from 1998 through December 2006. She is a director of one other public company, Covance, Inc., a drug development services company. She is a director of Northwestern Memorial Health Care. A search firm identified Ms. Helton as a potential Director candidate.

*Larry D. Zimpleman* Age 55

Larry D. Zimpleman has been a Director of the Company and Principal Life and President and Chief Operating Officer of the Company and Principal Life since June 2006. Prior to June of 2006, he was President, Retirement and Investor Services of the Company and of Principal Life, since December 2003, served as head of the Company's International Asset Accumulation business since January 2003, the U.S. Asset Accumulation business since February 2002, and was Executive Vice President of the Company and Principal Life since August 2001. Mr. Zimpleman is a trustee of Drake University.

*Class II Directors Whose Terms Expire in 2009*

*J. Barry Griswell* Age 58

J. Barry Griswell has been a Director of the Company since 2001 and of Principal Life since 1998, and Chairman and Chief Executive Officer of the Company and Principal Life since June of 2006. Prior to that, he had been Chairman, President and Chief Executive Officer of the Company since 2002, and President and Chief Executive Officer of Principal Life since 2000. He is a Chartered Life Underwriter, a Chartered Financial Consultant and a LIMRA Leadership Institute Fellow. Mr. Griswell is also a director of Herman Miller, Inc., a public company that is an office furnishings designer and manufacturer. He is a trustee of Central College and of Berry College. He is Chairman of the Business Committee for the Arts and a board member of the Business Roundtable. He is a trustee of the United Way of America board, and Chair of the United Way of America National Tocqueville Council. He is Chairman of the Board of the Company and Principal Life.

*Richard L. Keyser* Age 64

Richard L. Keyser has been a Director of the Company and Principal Life since 2002. Mr. Keyser has served as Chairman and Chief Executive Officer of W.W. Grainger, Inc., an industrial distributor of products used by



businesses to maintain, repair and operate their facilities, since 1997. Mr. Keyser is a director of two other public companies: W. W. Grainger, Inc. and Rohm and Haas Company, a global specialty materials company. He is a director of Evanston Northwestern Healthcare Research Institute and the National Merit Scholarship Foundation. He is a trustee for the John G. Shedd Aquarium and the Field Museum of Natural History. He is an Advisor for the Grainger Center for Supply Chain Management, University of Wisconsin-Madison, the Kellogg School of Management, Northwestern University, and the Division of the Physical Sciences, University of Chicago.

**Arjun K. Mathrani** Age 62

Arjun K. Mathrani has been a Director of the Company and Principal Life since 2003. Mr. Mathrani teaches courses in finance and banking at New York University's Stern School of Business, at St. John's University, New York, and at Cambridge University's Judge Institute of Management. In 1998, Mr. Mathrani was the Chief Executive Officer of ING Barings in London. He retired from Chase Manhattan Bank in 1997, where he served as Chief Financial Officer between 1994 and 1996. Prior to that, he was Chase's Corporate Treasurer and served in a number of senior international positions with Chase. Mr. Mathrani is a member of the Global Association of Risk Professionals.

**Elizabeth E. Tallett** Age 58

Elizabeth E. Tallett has been a Director of the Company since 2001 and of Principal Life since 1992. Ms. Tallett has been a Principal of Hunter Partners, LLC, which provides management services to developing life sciences companies, since July 2002. She was Chief Executive Officer of Marshall Pharmaceuticals, Inc., a specialty pharmaceutical company, from November 2000 until January 2003, and was President and Chief Executive Officer of Dioscor Inc., a biopharmaceutical firm, from 1996 until July 2003. She is a director of five other public companies: Coventry Health Care, Inc., a managed health care company; Immunicon, Inc., a specialty diagnostics company; IntegraMed America, Inc., a health services management company; Varian, Inc., a supplier of scientific instruments; and Varian Semiconductor Equipment Associates, Inc., a company that manufactures semiconductor equipment. She is also a director of the Biotechnology Council of New Jersey.

**Therese M. Vaughan, Ph.D.** Age 50

Therese M. Vaughan has been a Director of the Company and Principal Life since November of 2005. Dr. Vaughan is the Robb B. Kelley Distinguished Professor of Insurance and Actuarial Science at Drake University. From 1994-2004, Dr. Vaughan served as the Iowa Insurance Commissioner, and was President of the National Association of Insurance Commissioners in 2002. Dr. Vaughan represents the American Academy of Actuaries at the Solvency and Regulation Committees of the International Actuarial Association, is a director of the Insurance Marketplace Standards Association and the National Council on Compensation Insurance. She is a member of the Board of Trustees of the American Institute for Chartered Property Casualty Underwriters and a director of Endurance Specialty Holdings Ltd., a public company that is a global provider of specialty lines property and casualty insurance and reinsurance.

**Class I Directors Whose Terms Expire in 2008**

**Betsy J. Bernard** Age 51

Betsy J. Bernard has been a Director of the Company since 2001 and of Principal Life since 1999. Ms. Bernard was President of AT&T from October 2002 until December 2003. Prior to October 2002, she was Chief Executive Officer of AT&T Consumer since April 2001. Ms. Bernard is also a director of two other public companies: URS Corporation, an engineering design services firm, and BearingPoint, Inc., a company providing business consulting, systems integration and managed services.

**Jocelyn Carter-Miller** Age 49

Jocelyn Carter-Miller has been a Director of the Company since 2001 and of Principal Life since 1999. Ms. Carter-Miller is President of TechEdVentures, a firm that develops and manages charter schools and community-based programs. Ms. Carter-Miller was Executive Vice President and Chief Marketing Officer of Office Depot, Inc. from February 2002 until March 2004. Prior to that time, Ms. Carter-Miller was Corporate Vice President and Chief Marketing Officer of Motorola, Inc. from February 1999 until February 2002. She is a board member of the Association of National Advertisers, the University of Chicago Women's Business Advisory Group, Smart School Charter Middle School and the Coral Springs Museum of Art.

**Gary E. Costley, Ph.D.** Age 63

Gary E. Costley has been a Director of the Company and Principal Life since 2002. Dr. Costley is a co-founder and managing director of C&G Capital Management, LLC, which provides capital and management to health, medical and nutritional products and services companies. He was Chairman and Chief Executive Officer of International Multifoods Corporation, a manufacturer and marketer of branded consumer food and foodservice products, from November 2001 until June 2004. He is a director of three other public companies: Pharmacoepia Drug Discovery, Inc. and Accelrys, Inc., companies that specialize in technology-based products and services that improve and accelerate drug discovery and chemical development, and Prestige Brand Holdings, Inc., a company that develops and markets over-the-counter drugs, household cleaning products and personal care items.

**William T. Kerr** Age 65

William T. Kerr has been a Director of the Company since 2001 and of Principal Life since 1995. Mr. Kerr was Chairman and Chief Executive Officer of Meredith Corporation, a media and marketing company from January 1998 to June 2006. He is currently Chairman of Meredith Corporation. He is a director of three other public companies: Meredith Corporation, Whirlpool Corporation, a manufacturer of household appliances, and Interpublic Group of Companies, Inc., a global marketing and communications company. He is a Trustee of Oxford University Press and of Harvard Business School Publishing.

**Director Transitions**

David J. Drury has announced his retirement from the Board effective at the 2007 Annual Meeting. Charles S. Johnson and Federico F. Peña retired from the Board at the 2006 Annual Meeting.

**CORPORATE GOVERNANCE**

The business of the Company is managed under the direction of the Board. The Board selects and oversees management and provides advice and counsel to the Chief Executive Officer ("CEO"). The Board reviews and discusses the strategic direction of the Company, and monitors the Company's performance against goals the Board and management establish.

The Board has appointed an independent Director to act as Presiding Director when it is important that the independent Directors act independently of the Chairman of the Board, who is also the Company's CEO. The Board regularly reviews the effectiveness of this shared leadership. Dr. Gelatt is the current Presiding Director and Ms. Tallett is the current Alternate Presiding Director. On May 21, 2007, Ms. Tallett will be the Presiding Director and Ms. Bernard will be the Alternate Presiding Director.

The responsibilities of the Presiding Director are to:

lead the Board in its executive sessions;

review and give directions on agendas for Board meetings;

provide advice to the CEO; and

take action on input from the independent Directors as necessary, and when the Chairman of the Board is unable to act.

The independent Directors and Mr. Drury held at least one executive session at each regularly-scheduled Board meeting and the independent Directors held four executive sessions in 2006. All executive sessions are led by the Presiding Director.

The charters of the Audit, Human Resources and Nominating and Governance Committees, the Corporate Governance Guidelines and the Corporate Code of Ethics are available on the Company's website at [www.principal.com](http://www.principal.com). This information may also be obtained from the Corporate Secretary.





### Majority Voting

Currently, a plurality of the shares voting is required for the election of the Company's Directors. At the time of the Annual Meeting, the Board plans to approve an amendment of the Company's By-Laws to adopt a majority voting standard for uncontested Director elections.

### Director Independence

The Board determines at least annually whether each Director is independent. In making this determination, the Board reviews the Director Independence Standards it has adopted. These Standards are set forth below, and are available on the Company's website, [www.principal.com](http://www.principal.com).

In order to be considered independent, a Director must not:

1. Be an employee of the Company or have been an employee of the Company within the past three years, or have an immediate family member who is an executive officer of the Company or has been an executive officer of the Company within the past three years;
2. Have received, or have an immediate family member who is an executive officer who has received, in any twelve month period within the last three years, more than \$100,000 in direct compensation from the Company, other than Director or committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service);
3. Be an employee or partner of a firm that is the Company's internal or external auditor; or have an immediate family member who is a partner of such a firm, or has been employed by such a firm and who participates in that firm's audit, assurance or tax compliance practice; or be or have an immediate family member who, within the past three years, has been, a partner or employee of such firm and personally worked on the Company's audit within that time;
4. Be, or in the past three years have been, or have an immediate family member who is, or in the past three years has been, an executive officer of another company where any of the Company's present executives at the same time serves or served on that company's compensation committee;
5. Be an employee, or have an immediate family member who is an executive officer of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeded the greater of \$1 million or 2% of such other company's consolidated gross revenues; or
6. Be an executive officer of a tax-exempt organization that, within the preceding three years, received contributions from the Company in any fiscal year exceeding the greater of \$1 million or 2% of the tax-exempt organization's consolidated gross revenues.

Further, in order to be considered independent, members of the Audit Committee must not receive any compensation from the Company, either directly or indirectly, except for compensation received for service as a member of the Board and Board committees.

The Board's determinations regarding the independence of its members shall be disclosed as required by law and applicable regulation.

A Director's "immediate family" includes the Director's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law and anyone (other than domestic employees) who shares the Director's home.

In its annual review of Director independence, the Board considers all commercial, banking, consulting, accounting, charitable and other relationships a Director may have with the Company and its subsidiaries. The Board made these determinations for each Director in February 2007, based on:

A review of relationships and transactions between Directors or their immediate family members and the Company, its subsidiaries and executive officers;

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Questionnaires completed by each current Director regarding any relationships or transactions that could affect the Director's independence;

The Company's review of its purchasing, investment and customer records; and

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Recommendations of the Nominating and Governance Committee.

Based on this information and the standards set forth above, the Board has determined that the following Directors are independent: Ms. Bernard, Ms. Carter-Miller, Dr. Costley, Mr. Dan, Dr. Gelatt, Ms. Helton, Mr. Johnson, Mr. Kerr, Mr. Keyser, Mr. Mathrani, Mr. Peña, Ms. Tallett and Dr. Vaughan. Seventy-eight percent of the Company's current Directors are independent.

The Board concluded that two of the 13 independent Directors had no relationship with the Company, except as Directors. The other Directors had the following relationships with the Company that were not considered material to the Company or to the other companies, organizations or Directors involved in the transactions. This conclusion was based on the amount paid for the goods and services, the nature of the goods and services and a review of the terms and conditions of the transactions, or employment relationship.

Transactions entered into in the ordinary course of business with companies for which the Director is a director or executive officer that provided goods or services to, purchased goods or services from, or had an investment transaction with, the Company or its subsidiaries (Ms. Bernard, Dr. Costley, Mr. Dan, Dr. Gelatt, Ms. Helton, Mr. Kerr, Mr. Keyser, Ms. Tallett and Dr. Vaughan);

Directors who own products offered by a subsidiary of the Company (Ms. Bernard, Dr. Gelatt, Ms. Helton, Mr. Johnson, Mr. Kerr, Ms. Tallett and Dr. Vaughan);

Directors who are affiliated with a tax-exempt organization as a trustee or employee to which the Company's charitable foundation made a contribution (Dr. Vaughan);

Directors who have an immediate family member who is an employee of a subsidiary of the Company (Dr. Vaughan).

### **Board Meetings**

The Board held six meetings in 2006, and each of the Directors then in office attended at least 75 percent in the aggregate of the meetings of the Board and the standing committees of which the Director was a member. The annual meeting of shareholders is scheduled on the same day as the regular meeting of the Board in the second quarter to enable the Directors to attend. In 2006, all of the Directors attended the annual meeting except Mr. Johnson and Mr. Peña, whose Board service ended at that meeting.

### **Corporate Code of Ethics**

Each Director and officer of the Company has certified compliance with the Corporate Code of Ethics.

### **Board Committees**

Only independent Directors may serve on the standing Board Committees: the Audit Committee, Human Resources Committee and Nominating and Governance Committee. Committee members and selection of committee chairs are recommended to the Board by the Nominating and Governance Committee, in consultation with the Chairman of the Board. The Committees review their charters and evaluate their performance annually. Charters of the Audit, Human Resources and Nominating and Governance Committees are available on the Company's website, [www.principal.com](http://www.principal.com).

## Committee Membership

Director	Audit Committee	Human Resources Committee	Nominating and Governance Committee	Executive Committee	Strategic Issues Committee(1)
Betsy J. Bernard			Chair	X(2)	
Jocelyn Carter-Miller	X(3)		X(3)		Chair
Gary E. Costley		X			
Michael T. Dan		X			
David J. Drury				X(4)	
C. Daniel Gelatt	X(5)	X(5)		X	
J. Barry Griswell				Chair	
Sandra L. Helton	X				X
Charles S. Johnson	X(6)				
William T. Kerr		Chair		X	
Richard L. Keyser			X		
Arjun K. Mathrani	Chair(7)				X
Federico F. Peña			X(8)		
Elizabeth E. Tallett	Chair(9)	X		X	
Therese M. Vaughan	X				X
Larry D. Zimpleman					

- (1) The Strategic Issues Committee is an ad hoc committee of the Board of Directors that has the primary planning responsibility for the Board of Directors' annual strategic retreat.
- (2) Ms. Bernard will join the Executive Committee on May 21, 2007.
- (3) Ms. Carter-Miller served on the Audit Committee until May 2006, when she became a member of the Nominating and Governance Committee.
- (4) Mr. Drury will retire from the Board on May 22, 2007.
- (5) Dr. Gelatt will move from the Human Resources Committee to the Audit Committee on May 21, 2007.
- (6) Mr. Johnson retired from the Board on May 16, 2006.
- (7) Mr. Mathrani will become Chair of the Audit Committee on May 21, 2007.
- (8) Mr. Peña retired from the Board on May 16, 2006.
- (9) Ms. Tallett will become a member of the Human Resources Committee on May 21, 2006.

**Audit Committee**

The Audit Committee is responsible for:

appointment, termination, compensation and oversight of the Company's independent auditor;

reviewing and reporting to the Board on the audit and non-audit activities of the independent auditor;

approving all audit engagement fees and pre-approval for any non-audit engagement and compensation of the independent auditor consistent with the Company's Policy on Auditor Independence;

reviewing audit plans and results; and

reviewing and reporting to the Board on accounting policies and legal and regulatory compliance.

The Committee meets at least quarterly with:

financial management;

the internal auditor;

independent auditor;

the Company's Chief Financial Officer; and

the Company's General Counsel.

The Committee reviews its charter and evaluates its performance annually. The Committee held seven meetings in 2006.

The Board has determined that all members of the Audit Committee are financially literate. The Board has also determined that Ms. Helton and Mr. Mathrani are "financial experts" as defined by the Sarbanes-Oxley Act.

Ms. Tallett currently serves on audit committees for more than three publicly-traded companies. The Board has determined that such service does not impair her effectiveness on the Company's Audit Committee.

**Audit Committee Charter**

The Audit Committee operates pursuant to a charter approved by the Board that was last amended by the Board on May 16, 2006. The charter sets out the responsibilities, authority and specific duties of the Audit Committee. The charter specifies, among other things, the structure and membership requirements of the Committee, as well as the relationship of the Audit Committee to the independent auditor, the internal auditor and management of the Company.

### AUDIT COMMITTEE REPORT

The Audit Committee oversees the Company's financial reporting process on behalf of the Board. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed with management the audited financial statements for the fiscal year ended December 31, 2006, including a discussion of the quality, not just the acceptability, of the accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Committee has discussed with Ernst & Young LLP, the Company's independent auditor, the matters required to be discussed by Statement on Auditing Standards ("SAS") 61 (Communication with Audit Committees). SAS 61, as amended, requires the independent auditor to provide the Committee with additional information regarding the scope and results of its audit of the Company's financial statements, including with respect to (i) the independent auditor's responsibility under generally accepted auditing standards, (ii) significant accounting policies, including a discussion of their quality, not just their acceptability, (iii) management judgments and estimates, (iv) any significant audit adjustments, (v) any disagreements with management, and (vi) any difficulties encountered in performing the audit.

The Committee has received from Ernst & Young LLP a letter providing the disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) with respect to any relationships between Ernst & Young LLP and the Company that in its professional judgment may reasonably be thought to bear on independence. The Committee has discussed with Ernst & Young LLP its independence and Ernst & Young LLP has confirmed in such letter that, in its professional judgment, it is independent of the Company within the meaning of the federal securities laws.

The Committee discussed with the Company's internal and independent auditors the overall scope and plans for their respective audits. The Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board (and the Board has approved) that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, for filing with the SEC. The Committee has also approved, subject to shareholder ratification, the reappointment of Ernst & Young LLP as the Company's independent auditors for the fiscal year ending December 31, 2007.

As specified in the Audit Committee charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and in accordance with generally accepted accounting principles. That is the responsibility of the Company's independent auditor and management. In giving our recommendation to the Board, the Committee has relied on (i) management's representation that such financial statements have been prepared with integrity and objectivity and in conformity with generally accepted accounting principles, and (ii) the report of the Company's independent auditor with respect to such financial statements.

Elizabeth E. Tallett, Chair  
Sandra L. Helton  
Arjun K. Mathrani  
Therese M. Vaughan

**Nominating and Governance Committee**

The Nominating and Governance Committee recommends to the Board:

Director candidates; and

Board committee assignments and service as Presiding Director and Alternate Presiding Director.

The Committee also reviews and reports to the Board on:

Director independence;

performance of individual Directors, and oversees the process for the annual self-evaluations of the Board and committees of the Board;

the content of the Company's Corporate Code of Ethics;

Director compensation; and

adequacy of the Company's Corporate Governance Guidelines.

The Committee held four meetings in 2006.

**Director Candidates Recommended by Shareholders**

The Committee will consider shareholder recommendations for Directors sent to the Nominating and Governance Committee, c/o the Corporate Secretary. The Committee will evaluate Director candidates nominated by shareholders in the same manner it evaluates Director candidates identified by the Committee, management and search firms.

The Committee is responsible for assessing the appropriate mix of skills and characteristics for Board members in the context of the current make-up of the Board and the needs of the Company. The Committee assesses personal and professional ethics, integrity and values along with expertise that is useful to the Company and complementary to the background and experience of other Directors. It is important that the Board includes Directors who are CEOs or retired CEOs and who have financial management or accounting experience. Diversity of the Board is also a valued objective. The following competencies are also sought: strategic orientation, results-orientation and comprehensive decision-making.

The Board has a mandatory retirement policy that provides that a Director's term shall not extend beyond the annual meeting following the Director's 70th birthday.

**Human Resources Committee**

The Human Resources Committee has responsibility for:

evaluating the performance of the CEO and determining his compensation;

determining compensation for all Executives. "Executives" are employees at the levels of Senior Vice President and above;

acting on management's recommendations for salary and supplemental employee compensation policies for all other employees;



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administering the Company's Annual Incentive Plan, Incentive Pay Plan ("PrinPay Plan"), Long-Term Performance Plan and 2005 Stock Incentive Plan, and other compensation plans that provide compensation to Executives;

acting on management's recommendations that require Director action for all employee pension and welfare benefit plans;  
and

overseeing executive management and succession planning.

The Committee has the sole authority to retain and terminate executive compensation consulting firms to advise the Committee. The Committee held six meetings in 2006.

### **Processes and Procedures for Determination of Executive Compensation**

The Human Resources Department of Principal Life provides support to the Committee. In addition, the Committee engaged Frederic W. Cook and Co., Inc. as its independent compensation consultant to advise the Committee on compensation program design, the components of the Company's executive compensation program, and the amounts the Company should pay its Executives. The independent compensation consultant also provides the Committee with information on executive compensation trends, best practices and advice for potential improvements to the executive compensation program. Frederic W. Cook and Co., Inc. also advises the Nominating and Governance Committee on the design of the compensation program for non-employee Directors, reports information on director compensation trends and best practices, and provides advice for potential improvement to the compensation plan for Directors. Frederic W. Cook and Co., Inc. does not advise management, receives no compensation from the Company other than for its work in advising these board committees, and maintains no other economic relationships with the Company.

Every other year, the independent compensation consultant performs an extensive review of the Company's total executive compensation program as well as each element of executive compensation, including benefits and perquisites. The first step in that process is for the consultant to gain a current understanding of the Company's executive compensation objectives through dialogue with the Committee, the CEO and Human Resources Department staff.

As part of the process of assessing the effectiveness of the Company's compensation programs, Frederic W. Cook and Co., Inc. receives input from Executives and interacts as necessary with the Chairman and CEO, the General Counsel and the Senior Vice President of Human Resources regarding the Company's strategic goals and the manner in which the compensation plans should support these goals.

The independent consultant and the Committee review and refine the Company's executive compensation philosophy, and also review the executive compensation practices of the peer group of companies the Company uses to compare its executive compensation practices (the "Peer Group"). (See Page 17 for a list of companies in the Peer Group.) The independent consultant provides research and makes recommendations to the Committee regarding changes in the design of the Company's executive compensation program and the elements and levels of compensation for specific Executives. The recommendations are based on the Company's executive compensation philosophy, compensation trends, the Company's financial performance relative to the Peer Group, the Company's needs for executive talent, the reasonableness of the cost to the Company, the implications for creation of shareholder value and other best practices in executive compensation.

Annually, the Committee reviews a tally sheet of the dollar amounts of all executive compensation that is paid, deferred or accrued. The tally sheets include base salary, annual and long-term incentive compensation, outstanding equity awards, retirement benefits, perquisites and potential payments upon various termination scenarios for each of the Executives.

In the years in which the independent compensation consultant does not perform an extensive compensation review, the Committee reviews its compensation philosophy and objectives and makes determinations on base salary and target award levels for Executives under the annual and long-term incentive compensation programs. These decisions are based, in part, on survey data provided by the Human Resources Department. The independent compensation consultant confirms the appropriateness of the data provided by the Human Resources Department.

The Committee makes determinations on all aspects of compensation for each Executive and reports its actions to the Board of Directors. Under the Principal Financial Group 2005 Stock Incentive Plan ("2005 Stock Incentive Plan"), the Committee has delegated to the CEO the authority to make awards of stock options, restricted stock units, stock appreciation rights or performance share awards to sales agents ("Agents") and employees below the level of Executive. The CEO reports on his actions in this regard at the next regular Committee meeting. See Page 21 for more detail. The Committee has delegated administrative tasks to the plan administrators of various compensation plans, which are management committees or employees in the Human Resources Department.

The Committee makes determinations on the base salaries and target award levels of the Executives under the incentive plans, taking into consideration the Executive's performance. Each February, the Chair of the Committee solicits input from the non-management Directors on the CEO's performance for the prior year. The CEO provides the Board with a self-evaluation of his performance relative to financial and strategic goals established with the Committee at the start of the year. The Committee conducts the performance review of the CEO at its

February meeting, and his compensation is based on this evaluation. The CEO provides the Committee with information on the performance of each of the other Executives, including the level of achievement with respect to that individual's pre-established goals for the year. The CEO makes recommendations to the Committee on the base salary, target award levels and actual awards for each Executive. The Committee reviews these recommendations and makes its determination, seeking the input and recommendations of its independent compensation consultant as appropriate.

#### Human Resources Committee Interlocks and Insider Participation

Mr. Kerr, Dr. Gelatt, Mr. Johnson, Mr. Dan and Dr. Costley served on the Human Resources Committee in 2006. No member of the Human Resources Committee is or has been an officer or employee of the Company or had any relationship that is required to be disclosed as a transaction with a related party.

#### Executive Committee

The Executive Committee is made up of three independent Directors and Mr. Griswell and Mr. Drury, and generally acts only on matters specifically delegated to it by the Board and on matters of a routine nature. All actions of the Executive Committee must be approved by its independent members.

The Executive Committee has all the authority of the Board in the management of the Company's business between Board meetings, except that it has no authority with respect to matters for which the Board has specifically directed otherwise or for certain matters set forth under law and in the Company's By-Laws. The Committee held two meetings in 2006.

### DIRECTORS' COMPENSATION

The Nominating and Governance Committee reviews the Director compensation program every other year. Frederic W. Cook and Co., Inc. serves as a consultant to the Nominating and Governance Committee on Director compensation. The Nominating and Governance Committee uses the same Peer Group for Director compensation as is used for executive compensation. See Page 17 for a list of the companies in the Peer Group. Directors serve on the Boards of the Company, Principal Life and Principal Financial Services, Inc.

Directors who are also Company officers do not receive any remuneration for their services as members of the Board or Board Committees. For non-employee Directors, the Company's philosophy is to provide competitive compensation to attract and retain high-quality Directors. The Board believes that a substantial proportion of Director compensation should be in the form of equity to help align Directors' interests with the interests of shareholders.

#### Director Fees

<b>Annual Retainers(1)</b>	
Board	\$60,000(2)
	\$85,000 in restricted stock units ("RSUs")(3)
<b>Committee Chairs</b>	
Audit	\$15,000
Human Resources and Nominating & Governance	\$10,000
Other Committees	\$5,000
Presiding Director	\$5,000
<b>Attendance Fees</b>	
Board Meeting	\$2,500(4)
Board Meeting via Telephone	\$1,000
Committee Meeting	\$1,300(5)
	\$1,500(6)
Committee Meeting via Telephone	\$1,000

(1)

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Retainer fees are paid twice per year, and the payments are for the 6-month period following the payment.

- (2) Effective November 27, 2006. Previously \$45,000.
- (3) Effective May 22, 2007. Previously \$75,000.
- (4) Per day.
- (5) If on the day of or day prior to a Board meeting.
- (6) If held other than on the day of or day prior to a Board meeting.

## Deferred Compensation

Directors may defer the receipt of their retainers and attendance fees under the Deferred Compensation Plan for Non-Employee Directors of Principal Financial Group, Inc. This Plan provides four investment options: phantom units tied to the Company's Common Stock, the Principal Investors Partners LargeCap Blend I Preferred Fund, the Principal Investors Real Estate Securities Preferred Fund and the Principal Investors Bond & Mortgage Securities Preferred Fund.

## Directors' Stock Ownership Guidelines

In August of 2006, the Board adopted a guideline that Directors own an amount of Company stock equal to five times their annual cash retainer as of the later of five years of adoption of the guideline or five years after joining the Board. Ownership of common stock, RSUs and phantom stock units count toward this guideline.

## Other

Directors are reimbursed for travel and other necessary business expenses incurred in the performance of their services for the Company, and they are covered under the Company's Business Travel Accident Insurance Policy and Directors' and officers' insurance coverage. Principal Life has a Directors' Charitable Matching Gift Program, and matches the charitable gifts up to an annual aggregate amount for each Director of \$6,000 per calendar year. Starting in 2006, Directors may also receive a match for gifts to the United Way up to \$10,000. These matching contributions are available during a Director's term and for three years thereafter. Directors who make gifts that Principal Life matches receive no financial benefit from the matching gift because Principal Life receives the charitable contribution tax deductions for the matching gifts.

## Perquisites

Some Directors' spouses or partners accompany them to the annual Board strategic retreat. The Company pays for their expenses and for some amenities for Directors and their spouses or partners at the retreat, including some meals and social events. In addition, Directors may purchase Principal Investors Funds mutual funds at net asset value, as may employees. The total value of these perquisites is less than \$10,000 per Director.

The following table summarizes the compensation paid to non-employee Directors in 2006.

### Fees Earned by Directors in 2006

Name	Fees Earned or Paid in Cash \$(1)	Stock Awards \$(2)	Total (\$)
Betsy J. Bernard	\$ 86,450	\$ 76,907	\$ 163,357
Jocelyn Carter-Miller	\$ 88,450	\$ 76,907	\$ 165,357
Gary E. Costley	\$ 79,450	\$ 76,907	\$ 156,357
Michael T. Dan	\$ 72,150	\$ 48,029	\$ 120,179
David J. Drury	\$ 74,250	\$ 89,923	\$ 164,173
C. Daniel Gelatt	\$ 86,450	\$ 89,923	\$ 176,373
Sandra L. Helton	\$ 77,150	\$ 89,923	\$ 167,073
Charles S. Johnson	\$ 29,800	\$ 32,125	\$ 61,925
William T. Kerr	\$ 91,450	\$ 76,907	\$ 168,357
Richard L. Keyser	\$ 71,150	\$ 80,154	\$ 151,304
Arjun K. Mathrani	\$ 83,450	\$ 80,154	\$ 163,604
Federico F. Peña	\$ 29,800	\$ 41,894	\$ 71,694
Elizabeth E. Tallett	\$ 98,450	\$ 80,154	\$ 178,604
Therese M. Vaughan	\$ 85,450	\$ 85,657	\$ 171,107

(1) Retainer payments are made twice per year, and the payments are for the 6-month period following the payment.

(2)

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Represents the 2006 FAS123R-related cost for RSU awards. The grant date fair value of the RSUs granted in 2006 was \$76,888 for each of the Directors except Mr. Johnson and Mr. Peña, who did not receive grants in 2006.

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As of December 31, 2006, each Director had the following aggregate number of outstanding RSUs, including additional RSUs as the result of dividend equivalents, and options:

Name	Options	RSUs
Betsy J. Bernard	7,820	3,455
Jocelyn Carter-Miller	7,820	5,051
Gary E. Costley	7,820	3,455
Michael T. Dan		1,465
David J. Drury	7,820	7,311
C. Daniel Gelatt	7,820	7,311
Sandra L. Helton	7,820	3,833
William T. Kerr	7,820	5,051
Richard L. Keyser	7,820	6,917
Arjun K. Mathrani	3,820	6,119
Elizabeth E. Tallett	7,820	6,917
Therese M. Vaughan		2,221

### COMPENSATION DISCUSSION AND ANALYSIS

#### Executive Compensation Program Objectives

The executive compensation program is designed to support the following strategic and human resource objectives:

1. Attract and retain talented executives who have the necessary experience and skills to do their jobs successfully;
2. Tie the delivery of executive compensation to the achievement of the Company's<sup>(1)</sup> short- and long-term financial and strategic goals;

(1) The Company has no employees, and all Company Executives are employed and paid by Principal Life.

3. Create commonality of interest between executives and shareholders;
4. Maximize the financial efficiency of the program from tax, accounting, cash flow and share dilution perspectives; and
5. Support important corporate governance principles and comply with established best practices.

#### Compensation Philosophy and Design Principles

In support of the objectives described above executive compensation is provided as base salary, annual and long-term incentives, benefits and perquisites.

The Committee strongly believes that executive compensation should be highly performance-based. In support of this belief, the Committee has determined that annual compensation base salary and annual bonuses should be delivered in cash and that long-term incentive compensation should be stock-based. The resulting mix of cash and equity-based compensation enables the Company to attract highly skilled executives, tie the delivery of annual and long-term incentive compensation to the achievement of annual and multi-year financial and strategic objectives, and create strong alignment between executive and shareholder interests.

To ensure suffi