

PRINCIPAL FINANCIAL GROUP INC

Form 424B2

June 15, 2005

Table of ContentsFiled Pursuant to Rule 424(b)(2)
Registration No. 333-111352Prospectus Supplement
(TO PROSPECTUS DATED JUNE 24, 2004)10,000,000 Shares
Principal Financial Group, Inc.
Series B Preferred Stock
(Non-Cumulative, \$25 Liquidation Preference)

We are offering 10,000,000 shares of our Series B Non-Cumulative Perpetual Preferred Stock, par value \$0.01 per share, which we refer to in this prospectus supplement as the *Shares*.

When, as, and if declared by our board of directors or a duly authorized committee of the board, dividends on the Shares will be payable on a non-cumulative basis at a rate *per annum* equal to 6.518% until the dividend payment date in June 2035, which period is referred to in this prospectus supplement as the *Initial Fixed Rate Period*. Thereafter, the dividend rate for the Shares may be at a Fixed Rate determined through remarketings of the Shares for specific periods of varying length not less than six months or may be at a Floating Rate reset quarterly and will equal 2.10% plus the highest of the 3-month LIBOR Rate, the 10-year Treasury CMT and the 30-year Treasury CMT for the related dividend period. The dividend payment dates will be the 30th day of each March, June, September and December, or the next business day if any such day is not a business day, commencing September 30, 2005.

The certificate of designations for the Shares prohibits the declaration of dividends on the Shares, except out of the net proceeds of common stock issued during the 90 days prior to the date of declaration, if we fail to meet specified capital adequacy, net income or shareholders' equity levels. See *Description of the Shares* *Restrictions on Declaration and Payment of Dividends*.

The Shares are not redeemable prior to the dividend payment date in June 2015. On and after that date, we may, at our option, redeem the Shares at a price of \$25 per share plus accrued and unpaid dividends for the then current dividend period to the date of redemption, if any.

Concurrently with this offering of the Shares, we are offering 3,000,000 shares of our Series A Non-Cumulative Perpetual Preferred Stock, par value \$0.01 and liquidation preference \$100 per share, which we refer to in this prospectus supplement as the *Series A Preferred Stock*. The Series A Preferred Stock will be offered pursuant to a separate prospectus supplement. Neither offering is contingent upon the other.

The Shares have been approved for listing on the New York Stock Exchange under the symbol PFG-PrB, subject to official notice of issuance. Trading of the Shares on the New York Stock Exchange is expected to commence within a 30-day period after initial delivery.

Investing in the Shares involves risks. See Risk Factors beginning on page S-8 of this prospectus supplement to read about some of the risks you should consider before buying the Shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price(1)	\$ 25.00	\$ 250,000,000
Underwriting discounts and commissions	\$ 0.375	\$ 3,750,000
Proceeds to us before expenses	\$ 24.625	\$ 246,250,000

(1) Plus accrued dividends, if any, from June 17, 2005.

The underwriters expect to deliver the Shares only in book-entry form through the facilities of The Depository Trust Company on or about June 17, 2005.

Lehman Brothers
Sole Book-Running Manager and Structuring Advisor
UBS Investment Bank
Senior Co-Manager

Goldman, Sachs & Co.
JPMorgan

Banc of America Securities LLC

Wachovia Securities

Guzman & Company

The date of this Prospectus Supplement is June 14, 2005

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You should rely only on information contained in this prospectus supplement and the accompanying prospectus or information to which we have referred you. We have not, and the underwriters have not, authorized anyone to provide you with information that is different. This prospectus supplement and the accompanying

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prospectus may only be used where it is legal to sell these securities. The information in this prospectus supplement and the accompanying prospectus may only be accurate as of the date of this prospectus supplement.

We are offering to sell, and are seeking offers to buy, the Shares only in jurisdictions where offers and sales are permitted. The distribution of this prospectus supplement and the accompanying prospectus and the offering of the Shares in certain jurisdictions may be restricted by law. Persons outside the United States who come into possession of this prospectus supplement and the accompanying prospectus must inform themselves about and observe any restrictions relating to the offering of the Shares and the distribution of this prospectus supplement and the accompanying prospectus outside the United States. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer to sell, or a solicitation of an offer to buy, any securities offered by this prospectus supplement and the accompanying prospectus by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering of Shares and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into this prospectus supplement and the accompanying prospectus. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering.

If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information contained in this prospectus supplement.

Unless otherwise indicated, or the context otherwise requires, references in this prospectus supplement and the accompanying prospectus to *Principal*, *we*, *us* and *our* or similar terms are to Principal Financial Group, Inc. and its subsidiaries.

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FORWARD-LOOKING STATEMENTS

Some of the statements contained in this prospectus supplement and the accompanying prospectus are forward-looking statements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include estimates and assumptions related to economic, competitive and legislative developments. These forward-looking statements are subject to change and uncertainty which are, in many instances, beyond our control and have been made based upon management's expectations and beliefs concerning future developments and their potential effect upon us. There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on us will be those anticipated by management. Actual results could differ materially from those expected by us, depending on the outcome of various factors. These factors include:

a decline or increased volatility in the securities markets could result in investors withdrawing from the markets or decreasing their rates of investment, either of which could reduce our net income, revenues and assets under management;

our investment portfolio is subject to several risks which may diminish the value of our invested assets and affect our sales, profitability and the investment returns credited to our customers;

competition from companies that may have greater financial resources, broader arrays of products, higher ratings and stronger financial performance may impair our ability to retain existing customers, attract new customers and maintain our profitability;

a downgrade in Principal Life Insurance Company's (*Principal Life*) financial strength ratings may increase policy surrenders and withdrawals, reduce new sales and terminate relationships with distributors and cause some of our existing liabilities to be subject to acceleration, additional collateral support, changes in terms, or creation of additional financial obligations;

our efforts to reduce the impact of interest rate changes on our profitability and surplus may not be effective;

if we are unable to attract and retain sales representatives and develop new distribution sources, sales of our products and services may be reduced;

our international businesses face political, legal, operational and other risks that could reduce our profitability in those businesses;

our reserves established for future policy benefits and claims may prove inadequate, requiring us to increase liabilities;

our ability to pay stockholder dividends and meet our obligations may be constrained by the limitations on dividends Iowa insurance laws impose on Principal Life;

we may need to fund deficiencies in our closed block (*Closed Block*) assets which benefit only the holders of Closed Block policies;

changes in laws, regulations or accounting standards may reduce our profitability;

litigation and regulatory investigations may harm our financial strength and reduce our profitability;

fluctuations in foreign currency exchange rates could reduce our profitability;

applicable laws and our stockholder rights plan, certificate of incorporation and by-laws may discourage takeovers and business combinations that our stockholders might consider in their best interests; and

a downgrade in our debt ratings may adversely affect our ability to secure funds and cause some of our existing liabilities to be subject to acceleration, additional collateral support, changes in terms, or creation of additional financial obligations.

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SUMMARY

This summary contains basic information about us and this offering. Because it is a summary, it does not contain all of the information that you should consider before investing in the Shares. You should read this entire prospectus supplement carefully, including the section entitled Risk Factors, our financial statements and the notes thereto incorporated by reference into this prospectus supplement, and the accompanying prospectus, before making an investment decision.

Principal Financial Group, Inc.

The Principal Financial Group is a leading provider of retirement savings, investment and insurance products and services with \$174.7 billion in assets under management and approximately 14.9 million customers worldwide as of March 31, 2005.

We provide financial products and services through the following segments: (1) U.S. Asset Management and Accumulation, which provides retirement and related financial products and services primarily to businesses, their employees and other individuals and provides asset management services to our asset accumulation business, the life and health insurance operations, the Corporate and Other segment and third-party clients; (2) International Asset Management and Accumulation, which provides retirement products and services, annuities, long-term mutual funds and life insurance through subsidiaries and joint ventures in various countries; and (3) Life and Health Insurance, which provides life insurance, health insurance as well as specialty benefits in the U.S. We also have a Corporate and Other segment, which consists of the assets and activities that have not been allocated to any other segment.

We were organized as an individual life insurer in 1879, formed a mutual insurance holding company in 1998, and Principal Financial Group, Inc. was organized on April 18, 2001, as a Delaware business corporation. Under the terms of Principal Mutual Holding Company's Plan of Conversion, Principal Mutual Holding Company converted from a mutual insurance holding company to a stock company subsidiary of Principal Financial Group, Inc., effective October 26, 2001.

In addition, on October 26, 2001, we completed our initial public offering (the *IPO*) in which we issued 100.0 million shares of common stock at a price of \$18.50 per share, prior to the underwriters' exercise of the overallotment option of 15.0 million shares of common stock. Net proceeds from the IPO were \$1,753.9 million, of which \$64.2 million was retained by Principal Financial Group, Inc., and \$1,689.7 million was contributed to Principal Life principally to fund demutualization compensation to policyholders receiving cash or policy credits and to cover certain expenses related to the demutualization. Proceeds were net of offering costs of \$96.5 million and a related tax benefit of \$0.4 million. In addition to cash and policy credits, some eligible policyholders received shares of common stock under the Plan of Conversion in connection with our demutualization.

We are an insurance holding company whose assets include all of the outstanding shares of common stock of Principal Financial Services, Inc. Principal Financial Services, Inc., an Iowa business corporation, is an intermediary holding company whose assets include all of the outstanding shares of Principal Life and other subsidiaries. Principal Financial Services, Inc.'s ability to pay dividends and meet its obligations, including paying any debt service, depends upon the receipt of dividends from Principal Life. Our ability to pay dividends and meet our obligations, including paying operating expenses and any debt service, depends upon the receipt of dividends from Principal Financial Services, Inc. Iowa insurance laws impose limitations on the ability of Principal Life to pay dividends.

The principal executive office for Principal Financial Group, Inc. is located at 711 High Street, Des Moines, Iowa 50392, and the telephone number is (515) 247-5111.

Table of Contents**The Offering**

Issuer	Principal Financial Group, Inc.
Securities Offered	<p>10,000,000 shares of Series B Non-Cumulative Preferred Stock, par value \$0.01 per share, (the <i>Shares</i>), with a liquidation preference of \$25 per share, of Principal Financial Group, Inc.</p> <p>We may from time to time elect to issue additional Shares, and all such additional Shares would be deemed to form a single series with the Shares.</p>
Dividends	<p><u>Dividend Rate.</u> Dividends on the Shares initially will accrue at a fixed rate <i>per annum</i> equal to 6.518% until the dividend payment date in June 2035, which period we refer to as the <i>Initial Fixed Rate Period</i>. Prior to the expiration of the Initial Fixed Rate Period, we will have the option to remarket the Shares in order to establish a new fixed rate <i>per annum</i> for the next dividend period, which period we refer to as a <i>Fixed Rate Period</i>. Each Fixed Rate Period will continue for no less than six months and must end on a dividend payment date. If we elect not to remarket the Shares, or if a remarketing is unsuccessful, the dividend rate for the next dividend period, which period we refer to as a <i>Floating Rate Period</i>, will be at a floating rate. During a Floating Rate Period, the floating rate per annum will be reset quarterly and will equal 2.10% <i>plus</i> the highest of the 3-month LIBOR Rate, the 10-year Treasury CMT and the 30-year Treasury CMT, which are more fully described under <i>Description of the Shares</i> <i>Dividends</i> <i>Floating Rate Period</i>.</p> <p><u>Dividend Payment Dates.</u> The dividend payment dates for the Shares are the 30th day of March, June, September and December of each year, commencing on September 30, 2005. If any dividend payment date with respect to a Fixed Rate Period on which dividends would otherwise be payable is not a business day, then dividends will be payable on the first business day following such dividend payment date, without accrual to the actual payment date. If any dividend payment date with respect to a Floating Rate Period is not a business day, then dividends will be payable on the first business day following such dividend payment date unless such business day is in the next calendar month, in which case dividends will be payable on the first business day preceding such dividend payment date, and dividends will accrue to the actual payment date.</p> <p><u>Declaration of Dividends, etc.</u> Dividends on the Shares, when, as and if declared by our board of directors or a duly authorized committee of the board, will accrue and be payable at the applicable dividend rate applied to the liquidation preference per Share, accruing on each Share as follows: (i) from June 17, 2005 in the case of the Shares offered hereby and (ii) if additional Shares are issued at a future date, from (x) the date of issue if such date is a dividend payment date and (y) from the immediately preceding dividend payment date if the date of issue is other than a dividend payment date. Any such dividends will be distributed to holders of the Shares in the manner described under <i>Description of the Shares</i> <i>Dividends</i>.</p>

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Non-Cumulative Dividends. Dividends on the Shares are not cumulative. Accordingly, in the event dividends are not declared on the Shares for payment on any dividend payment date, then any accrued dividends shall cease to accrue and be payable. If our board of directors or a duly authorized committee of the board has not declared a dividend before the dividend payment date for any dividend period, we will have no obligation to pay dividends accrued for such dividend period after the dividend payment date for that dividend period, whether or not dividends on the Shares are declared for any future dividend period.

Redemption

The Shares are not redeemable prior to the dividend payment date in June 2015. On and after that date, the Shares are redeemable at our option in whole or in part at a redemption price equal to \$25 per share, plus any declared and unpaid dividends for the current dividend period to the redemption date, without accumulation of any undeclared dividends at the following times: (i) on any dividend payment date during the Initial Fixed Rate Period, beginning on or after the dividend payment date in June 2015, (ii) on any date that we determine is appropriate during a subsequent Fixed Rate Period, which date will be determined prior to the commencement of such subsequent Fixed Rate Period, or (iii) at any time during a Floating Rate Period. The Shares will not be subject to any sinking fund or other obligation of us to redeem, repurchase or retire the Shares.

We intend that, if we redeem Shares, we will redeem Shares only to the extent the aggregate redemption price is less than the net proceeds received by us from new issuances by us during the period commencing on the 180th day prior to the date of redemption to purchasers other than our affiliates of any securities which have equal or greater equity characteristics for us as the Shares. This intention also applies to any Shares that any regulatory authority requires us to redeem, unless such regulatory authority directs us otherwise, and to any Shares that we would redeem as a result of any change in the treatment given to the Shares under applicable tax law or U.S. GAAP. See Description of the Shares Redemption.

Dividend Payment Restrictions

The certificate of designations for the Shares prohibits the declaration of dividends on the Shares if we fail to meet specified capital adequacy, net income or shareholders' equity levels. The prohibition is subject to an exception permitting us to declare dividends out of the net proceeds of common stock issued by us during the 90 days prior to the date of declaration even if we fail to meet the specified capital adequacy, net income or shareholders' equity levels. See Description of the Shares Restrictions on Declaration and Payment of Dividends.

Ranking

The Shares:

will rank senior to our junior stock with respect to the payment of dividends and distributions upon liquidation, dissolution or winding-up. Junior stock includes our common stock and any other class of stock that ranks junior to the Shares either as to the payment of dividends or as to the distribution of assets upon any liquidation, dissolution or our winding-up.

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will rank at least equally with each other series of parity stock that we may issue with respect to the payment of dividends and distributions upon liquidation, dissolution or our winding-up. As of the date of this prospectus supplement, no other series of parity stock is outstanding. In addition to the Shares offered hereby, we are making a concurrent offering of our Series A Preferred Stock which will rank equally with the Shares offered hereby. See Description of the Shares General.

During any dividend period, so long as any Shares remain outstanding, unless the full dividends for the current dividend period on all outstanding Shares have been declared or paid, or declared and a sum sufficient for the payment thereof has been set aside:

no dividend whatsoever shall be paid or declared on our common stock or other junior stock, other than a dividend payable solely in junior stock; and

no common stock or other junior stock shall be purchased, redeemed or otherwise acquired for consideration by us, directly or indirectly (other than as a result of the reclassification of such junior stock for or into other junior stock, or the exchange or conversion of one share of such junior stock for or into another share of such junior stock and other than through the use of the proceeds of a substantially contemporaneous sale of other shares of junior stock).

For any dividend period in which dividends are not paid in full upon the Shares and other parity stock having the same restrictions on the declaration and payment of dividends as the Shares, including the Series A Preferred Stock, all dividends declared for such dividend period with respect to the Shares and such other parity stock shall be declared on a *pro rata* basis. See Description of the Shares Ranking. Preferred stock that we may choose to issue in the future that does not include the restrictions on dividends described under Description of the Shares Restrictions on Declaration and Payment of Dividends but that otherwise ranks *pari passu* with the Shares will be treated as parity stock and not as ranking senior to the Shares. See Description of the Shares Restrictions on Declaration and Payment of Dividends Interpretive Provisions and Qualifications.

Liquidation Rights

Upon our voluntary or involuntary liquidation, dissolution or winding up, holders of Shares are entitled to receive out of our assets that are available for distribution to stockholders, before any distribution is made to holders of common stock or other junior stock, a liquidating distribution in the amount of \$25 per share plus any accrued and unpaid dividends for the then-current dividend period, without accumulation of any undeclared dividends. Distributions will be made *pro rata* as to the Shares and any other parity stock and only to the extent of our assets, if any, that are available after satisfaction of all liabilities to creditors. See Description of the Shares Liquidation Rights.

Voting Rights

Holders of Shares will have no voting rights, except with respect to certain fundamental changes in the terms of the Shares and in the

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	case of certain dividend non-payments. Description of the Shares Voting Rights.
Maturity	The Shares do not have any maturity date, and we are not required to redeem the Shares. Accordingly, the Shares will remain outstanding indefinitely, unless and until we decide to redeem them.
Preemptive Rights	Holders of Shares will have no preemptive rights.
Listing	The Shares have been approved for listing on the New York Stock Exchange under the symbol PFG-PrB, subject to official notice of issuance. Trading of the Shares on the New York Stock Exchange is expected to commence within a 30-day period after initial delivery.
Tax Consequences	If you are a non-corporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2009 should generally be taxable to you at a maximum rate of 15%, subject to certain conditions and limitations. If you are a corporate U.S. holder, dividends paid to you should generally be eligible for the dividends received deduction, subject to certain conditions and limitations. For further discussion of the tax consequences relating to the Shares, see Certain U.S. Federal Income Tax Consequences.
Ratings	The Shares are expected to be rated BBB by Standard & Poor's Ratings and Baa2 by Moody's Investors Service. The ratings of the Shares should be evaluated independently from similar ratings of other securities. A rating is not a recommendation to buy, sell or hold securities and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning rating agency.
Use of Proceeds	We expect to receive net proceeds from this offering of approximately \$246.0 million, after expenses and underwriting discounts and commissions. See Use of Proceeds. We intend to use substantially all of the net proceeds from our concurrent offerings of the Shares and the Series A Preferred Stock to repurchase shares of our common stock, par value \$0.01 per share, and the remaining amount for general corporate purposes.
Transfer Agent and Registrar	Computershare Investor Services, LLC
Calculation Agent	Computershare Trust Company, Inc.
Remarketing Agent	Lehman Brothers Inc.

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Concurrently with this offering of the Shares, we are offering 3,000,000 shares of our Series A Preferred Stock having an aggregate liquidation preference of \$300,000,000. The Series A Preferred Stock will be offered pursuant to a separate prospectus supplement. The Series A Preferred Stock offering and this offering of Shares are not contingent on each other.

Ratio Of Earnings To Fixed Charges

The ratio of earnings to fixed charges is a measure of our ability to cover fixed costs with current period earnings. A high ratio indicates that earnings are sufficiently covering committed expenses. The following table sets forth, for the years indicated, our ratios of:

earnings to fixed charges before interest credited on investment products; and

earnings to fixed charges.

	For the Three Months Ended March 31,			For the Year Ended December 31,			
	2005	2004	2004	2003	2002	2001	2000
Ratio of earnings to fixed charges before interest credited on investment products(1)	21.0	7.9	9.8	7.7	4.3	3.2	6.5
Ratio of earnings to fixed charges(2)	2.3	2.0	2.0	1.9	1.4	1.3	1.8

(1) We calculate the ratio of earnings to fixed charges before interest credited on investment products by dividing the sum of income from continuing operations before income taxes (BT), interest expense (I), interest factor of rental expense (IF) less undistributed income from equity investees (E) by the sum of interest expense (I), interest factor of rental expense (IF) and dividends on majority-owned subsidiary redeemable preferred securities (non-intercompany) (D). The formula for this ratio is: $(BT+I+IF-E)/(I+IF+D)$.

(2) We calculate the ratio of earnings to fixed charges by dividing the sum of income from continuing operations before income taxes (BT), interest expense (I), interest factor of rental expense (IF) less undistributed income from equity investees (E) and the addition of interest credited on investment products (IC) by interest expense (I), interest factor of rental expense (IF), dividends on majority-owned subsidiary redeemable preferred securities (non-intercompany) (D) and interest credited on investment products (IC). The formula for this calculation is: $(BT+I+IF-E+IC)/(I+IF+D+IC)$. Interest credited on investment products includes interest paid on guaranteed investment contracts, funding agreements and other investment-only pension products. Similar to debt, these products have a total fixed return and a fixed maturity date.

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RISK FACTORS

You should carefully consider the following factors and other information in this prospectus supplement, including the information incorporated by reference in this prospectus supplement and the accompanying prospectus, before deciding to invest in the Shares.

You may be unable to sell your Shares if a trading market for the Shares does not develop.

The Shares are a new issue of securities with no established trading market, and none may develop. Since the Shares have no stated maturity date, investors seeking liquidity will be limited to selling their Shares in the secondary market. The representative of the underwriters has advised us that they intend to make a market in the Shares. However, they are not obligated to do so and may discontinue any market-making activity at any time without notice. The liquidity of any market for the Shares will depend on the number of holders of the Shares, the interest of securities dealers in making a market in the Shares, and other factors. Accordingly, we cannot assure you as to the development or liquidity of any market for the Shares. If an active trading market does not develop as a result of these and other factors, the market price and liquidity of the Shares may be adversely affected. This, in turn, may affect the price you receive for your Shares or your ability to sell your Shares at all. If you decide to sell your Shares there may be either no or only a limited number of potential buyers. If the Shares are traded, they may trade at a discount from their initial offering price depending upon prevailing interest rates, the market for similar securities, general economic conditions, our performance and business prospects.

The Shares have been approved for listing on the New York Stock Exchange (the *NYSE*) under the symbol PFG-PrB. We expect that trading of the Shares will commence, if at all, within 30 days after the initial delivery of the Shares. However, an active trading market for the Shares on the NYSE may not develop or, even if it develops, may not be sustained, in which case the trading price of the Shares could be adversely affected and your ability to sell or transfer your Shares will be limited.

Numerous factors may affect the trading price of the Shares.

Even if an active trading market for the Shares does develop on the NYSE, your Shares may trade at prices higher or lower than their initial offering price. The trading price may depend on many factors, including:

prevailing interest rates;

the market for similar securities;

additional issuances by us of other series or classes of preferred stock;

general economic conditions; and

our financial condition, performance and prospects.

Dividends on the Shares are non-cumulative.

Dividends on the Shares are non-cumulative. Consequently, if our board of directors or a duly authorized committee of the board of directors does not authorize and declare a dividend for any dividend period, holders of the Shares would not be entitled to receive any such dividend, and such unpaid dividend will cease to accrue and be payable. We will have no obligation to pay dividends accrued for a dividend period after the dividend payment date for such period if our board of directors or a duly authorized committee of the board has not declared such dividend before the related dividend payment date, whether or not dividends are declared for any subsequent dividend period with respect to the Shares or any other preferred stock we may issue.

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Our ability to declare and pay dividends on the Shares will be limited if we fail to achieve specified net income, capital adequacy or shareholders' equity levels.

We will be prohibited from declaring or paying dividends on the Shares in excess of the amount of net proceeds from an issuance of common stock taking place within 90 days before a dividend declaration date if, on that dividend declaration date, either:

the risk-based capital ratio of our largest U.S. life insurance subsidiaries that collectively account for 80% or more of the general account admitted assets of all of our U.S. life insurance subsidiaries on a weighted average basis were less than 175% of their company action level risk-based capital as of the end of the most recent year; or

our consolidated net income for the four-quarter period ending on the preliminary quarter end test date (the quarter that is two quarters prior to the most recently completed quarter) is zero or negative and our consolidated shareholders' equity (minus accumulated other comprehensive income, and subject to certain other adjustments relating to changes in U.S. GAAP) as of each of the preliminary quarter test date and the most recently completed quarter has declined by 10% or more from its level as measured at the end of the benchmark quarter (the date that is ten quarters prior to the most recently completed quarter).

If we fail to satisfy either of the above tests on any dividend declaration date, the restrictions on dividends will continue until we are able again to satisfy both tests on a dividend declaration date. In addition, in the case of a restriction arising under the second bullet point above, the restrictions on dividends will continue until our consolidated shareholders' equity (minus accumulated other comprehensive income, and subject to certain other adjustments relating to changes in U.S. GAAP) has increased, or has declined by less than 10%, in either case as compared to its level at the end of the benchmark quarter for each dividend payment date as to which dividend restrictions were imposed under the second bullet point above.

See Description of the Shares' Restrictions on Declaration and Payment of Dividends for more information on these restrictions.

We may in the future issue series of preferred stock that do not include restrictions on paying dividends and may pay dividends on such preferred stock at times when we are prohibited from paying dividends on the Shares.

The certificate of designations for the Shares provides that preferred stock that we may choose to issue in the future that does not include the restrictions on dividends described under Description of the Shares' Restrictions on Declaration and Payment of Dividends but that otherwise ranks *pari passu* with the Shares will not be treated as ranking senior to the Shares. See Description of the Shares' Restrictions on Declaration and Payment of Dividends Interpretive Provisions and Qualifications. As a consequence, we could issue such preferred stock without receiving the prior vote or consent of holders of the Shares and, if we were to issue such preferred stock and if dividends as to a dividend period were not paid on the Shares, we would not be precluded from paying dividends on such preferred stock because of the required suspension of dividends on the Shares.

Holders of Shares have limited voting rights.

Holders of Shares will not possess any voting rights, except in certain limited circumstances. Accordingly, the Shares may have no voting rights with respect to certain matters upon which a holder of our common stock may be entitled to vote. See Description of the Shares' Voting Rights.

The Shares are subordinated to our existing and future debt.

The holders of our indebtedness will have prior rights with respect to any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding up of our business. This may have the effect of reducing the amount of proceeds in connection with any insolvency, reorganization, dissolution or other winding up of our business paid to you as a holder of the Shares. As of March 31, 2005, our total indebtedness was approximately \$1,609.8 million. We may incur additional debt in the future. Payment of amounts due on the Shares will be subordinated to all of our existing and future debt.

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Holders of Shares may be unable to use the dividends received deduction.

Dividends paid to corporate U.S. holders on the Shares may be eligible for the dividends received deduction if we have current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. Although we presently have accumulated earnings and profits, we may not have sufficient current or accumulated earnings and profits during future fiscal years for the distributions on the Shares to qualify as dividends for federal income tax purposes. See Certain U.S. Federal Income Tax Consequences Distributions. If any distributions on the Shares with respect to any fiscal year are not eligible for the dividends received deduction because of insufficient current or accumulated earnings and profits, the market value of the Shares may decline.

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Table of Contents**USE OF PROCEEDS**

We estimate that, after deducting expenses and underwriting discounts and commissions, our net proceeds from this offering will be approximately \$246.0 million and our net proceeds from our concurrent offering of Series A Preferred Stock will be approximately \$296.0 million. We intend to use substantially all of the net proceeds from both offerings to repurchase shares of our common stock, par value \$0.01 per share. We intend to use the remaining net proceeds for general corporate purposes.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges is a measure of our ability to cover fixed costs with current period earnings. A high ratio indicates that earnings are sufficiently covering committed expenses. The following table sets forth, for the years indicated, our ratios of:

earnings to fixed charges before interest credited on investment products; and

earnings to fixed charges.

	For the Three Months Ended March 31,		For the Year Ended December 31,				
	2005	2004	2004	2003	2002	2001	2000
Ratio of earnings to fixed charges before interest credited on investment products(1)	21.0	7.9	9.8	7.7	4.3	3.2	6.5
Ratio of earnings to fixed charges(2)	2.3	2.0	2.0	1.9	1.4	1.3	1.8

(1) We calculate the ratio of earnings to fixed charges before interest credited on investment products by dividing the sum of income from continuing operations before income taxes (BT), interest expense (I), interest factor of rental expense (IF) less undistributed income from equity investees (E) by the sum of interest expense (I), interest factor of rental expense (IF) and dividends on majority-owned subsidiary redeemable preferred securities (non-intercompany) (D). The formula for this ratio is: $(BT+I+IF-E)/(I+IF+D)$.

(2) We calculate the ratio of earnings to fixed charges by dividing the sum of income from continuing operations before income taxes (BT), interest expense (I), interest factor of rental expense (IF) less undistributed income from equity investees (E) and the addition of interest credited on investment products (IC) by interest expense (I), interest factor of rental expense (IF), dividends on majority-owned subsidiary redeemable preferred securities (non-intercompany) (D) and interest credited on investment products (IC). The formula for this calculation is: $(BT+I+IF-E+IC)/(I+IF+D+IC)$. Interest credited on investment products includes interest paid on guaranteed investment contracts, funding agreements and other investment-only pension products. Similar to debt, these products have a total fixed return and a fixed maturity date.

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Table of Contents**SELECTED FINANCIAL INFORMATION**

The following table sets forth selected historical consolidated financial information for Principal Financial Group, Inc. The selected historical consolidated financial information for the years ended December 31, 2004, 2003 and 2002 and at December 31, 2004 and 2003 has been derived from our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2004. This selected consolidated financial information should be read in conjunction with and is qualified by reference to these financial statements and the related notes. The selected historical consolidated financial information for the years ended December 31, 2001 and 2000 and at December 31, 2002, 2001 and 2000 has been derived from our audited consolidated financial statements not included or incorporated by reference in this prospectus supplement or the accompanying prospectus. The selected consolidated financial information at and for the three months ended March 31, 2005 and 2004 has been derived from the unaudited interim consolidated financial statements included in our Quarterly Report on Form 10-Q for the three months ended March 31, 2005. The following consolidated statements of income and consolidated balance sheet data have been prepared in conformity with accounting principles generally accepted in the United States of America (*US GAAP*).

	Three Months Ended		Year Ended December 31,				
	March 31, 2005(1)	March 31, 2004(1)	2004(1)	2003(1)	2002(1)	2001(1)	2000(1)
(dollars and shares in millions, except for per share data)							
Income Statement Data:							
Revenues:							
Premiums and other considerations	\$ 934.1	\$ 920.4	\$ 3,710.0	\$ 3,630.7	\$ 3,877.8	\$ 4,094.5	\$ 3,974.6
Fees and other revenues	417.2	332.6	1,472.0	1,185.8	950.4	868.2	920.9
Net investment income	794.8	786.2	3,226.5	3,233.4	3,173.1	3,327.6	3,169.8
Net realized/unrealized capital gains (losses)	(1.5)	(42.5)	(104.8)	(63.2)	(374.1)	(491.9)	140.1
Total revenues	\$ 2,144.6	\$ 1,996.7	\$ 8,303.7	\$ 7,986.7	\$ 7,627.2	\$ 7,798.4	\$ 8,205.4
Income from continuing operations, net of related income taxes (benefits)	\$ 205.5	\$ 163.4	\$ 702.5	\$ 647.3	\$ 446.4	\$ 249.8	\$ 554.2
Income (loss) from discontinued operations, net of related income taxes(2)		35.9	128.8	102.4	(23.2)	119.7	66.0
Income before cumulative effect of	205.5	199.3	831.3	749.7	423.2	369.5	620.2

accounting changes								
Cumulative effect of accounting changes, net of related income taxes(3)		(5.7)	(5.7)	(3.4)	(280.9)	(10.7)		
Net income	\$ 205.5	\$ 193.6	\$ 825.6	\$ 746.3	\$ 142.3	\$ 358.8	\$ 620.2	

Earnings per Share**Data(4):**

Income from continuing operations, net of related income taxes (benefits), per share:

Basic	\$ 0.69	\$ 0.51	\$ 2.24	\$ 1.99	\$ 1.27	\$ 0.69	N/A
Diluted	\$ 0.68	\$ 0.51	\$ 2.23	\$ 1.98	\$ 1.27	\$ 0.69	N/A
Net income per share:							
Basic	\$ 0.69	\$ 0.60	\$ 2.64	\$ 2.29	\$ 0.41	\$ 0.99	N/A
Diluted	\$ 0.68	\$ 0.60	\$ 2.62	\$ 2.28	\$ 0.41	\$ 0.99	N/A

Common shares outstanding at end of period (in millions)	296.8	320.8	300.6	320.7	334.4	360.1	N/A
Weighted-average common shares outstanding for the period (in millions)	299.5	320.8	313.3	326.0	350.2	362.4	N/A
Weighted-average common shares and potential common shares outstanding for the period for computation of diluted earnings per share (in millions)	301.2	322.0	314.7	326.8	350.7	362.4	N/A
Cash dividends per share	N/A	N/A	\$ 0.55	\$ 0.45	\$ 0.25	N/A	N/A

Table of Contents**Three Months Ended****Year Ended December 31,**

	March 31, 2005(1)	March 31, 2004(1)	2004(1)	2003(1)	2002(1)	2001(1)	2000(1)
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(dollars in millions, unless otherwise noted)**Balance Sheet****Data:**

Total assets	\$ 113,529.1	\$ 110,812.8	\$ 113,798.1	\$ 107,754.4	\$ 89,870.6	\$ 88,350.5	\$ 84,404.9
Long-term debt	\$ 848.1	\$ 1,162.1	\$ 843.5	\$ 1,374.3	\$ 1,332.5	\$ 1,378.4	\$ 1,336.5
Common stock(5)	\$ 3.8	\$ 3.8	\$ 3.8	\$ 3.8	\$ 3.8	\$ 3.8	\$
Additional paid-in capital(6)	7,294.2	7,179.1	7,269.4	7,153.2	7,106.3	7,072.5	
Retained earnings (deficit)(7)	1,495.0	824.0	1,289.5	630.4	29.4	(29.1)	6,312.5
Accumulated other comprehensive income (loss)	1,046.4	1,539.6	1,313.3	1,171.3	635.8	147.5	(60.0)
Treasury stock, at cost	(2,496.3)	(1,559.5)	(2,331.7)	(1,559.1)	(1,118.1)	(374.4)	
Total stockholders equity	\$ 7,343.1	\$ 7,987.0	\$ 7,544.3	\$ 7,399.6	\$ 6,657.2	\$ 6,820.3	\$ 6,252.5

Other Supplemental Data:

Assets under management (\$ in billions)	\$ 174.7	\$ 149.8	\$ 168.7	\$ 144.9	\$ 111.1	\$ 120.2	\$ 117.5
Number of employees (actual)	14,133	15,380	13,976	14,976	15,038	17,138	17,473
Income (Loss) from Discontinued Operations, Net of Tax(2):							
Principal International Argentina S.A.	\$	\$ (0.1)	\$ 10.0	\$ (1.9)	\$ 3.7	\$ (14.6)	\$ (3.0)
Principal Residential Mortgage, Inc.		36.0	118.8	82.5	169.8	145.5	60.5
BT Financial Group				21.8	(196.7)	(11.2)	8.5

Total income (loss) from discontinued operations, net of tax	\$	35.9	128.8	\$	102.4	\$	(23.2)	\$	119.7	66.0
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- (1) We have reclassified periods prior to March 31, 2005 to conform to the presentation for that period. Our consolidated financial information was affected by the following transaction that affects year-to-year comparability:

On February 1, 2002, we sold our remaining stake of 15.1 million shares of Coventry Health Care (*Coventry*). We accounted for our investment in Coventry using the equity method prior to its sale. Our share of Coventry's net income was \$2.1 million, \$20.2 million and \$20.6 million for the years ended December 31, 2002, 2001 and 2000, respectively.

- (2) For disposals accounted for as discontinued operations, the results of operations (excluding corporate overhead) have been removed from our results of continuing operations for all periods presented. Corporate overhead allocated to those entities does not qualify for discontinued operations treatment under Statement of Financial Accounting Standards (*SFAS*) No. 144, *Accounting for the Impairment of Disposal of Long-Lived Assets*, and therefore is included in our results of continuing operations for periods prior to disposal.

Principal International Argentina S.A. On July 2, 2004, we closed the sale of Principal International Argentina S.A, our subsidiary in Argentina, and its wholly owned subsidiaries, Principal Life Compañía de Seguros, S.A. and Principal Retiro Compañía de Seguros de Retiro, S.A. Our total after-tax proceeds from the sale were approximately U.S.\$29.2 million.

Principal Residential Mortgage, Inc. On July 1, 2004, we closed the sale of Principal Residential Mortgage, Inc. to CitiMortgage, Inc. Our total after-tax proceeds from the sale were approximately U.S.\$620.0 million.

BT Financial Group. On October 31, 2002, we sold substantially all of BT Financial Group to Westpac Banking Corporation (*Westpac*). As of December 31, 2004, we have received proceeds of A\$958.9 million Australian dollars (*A\$*) (U.S.\$537.4 million) from Westpac. Our total after-tax proceeds from the sale were approximately U.S.\$890.0 million. This amount includes cash proceeds from Westpac, expected tax benefits, and a gain from unwinding the hedged asset associated with our investment in BT Financial Group.

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- (3) The following accounting changes resulted in cumulative effects of accounting changes being recorded.
For the three months ended March 31, 2004 and for the year ended December 31, 2004, the cumulative effect of accounting change was related to our implementation of Statement of Position 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts*.

For the year ended December 31, 2003, the cumulative effect of accounting change was related to our implementation of Interpretation No. 46, *Consolidation of Variable Interest Entities*, in January 2003.

For the year ended December 31, 2002, the cumulative effect of accounting change was related to our implementation of SFAS No. 142, *Goodwill and Other Intangible Assets*.

For the year ended December 31, 2001, the cumulative effect of accounting change was related to our implementation of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*.

- (4) Earnings per share information for 2001 represents unaudited pro forma earnings per common share for the year ended December 31, 2001. For purposes of calculating pro forma per diluted share information, weighted-average shares outstanding were used. For the period January 1, 2001 through October 25, 2001, we estimated 360.8 million common shares were outstanding. This consists of 260.8 million shares issued to eligible policyholders in our demutualization and the 100.0 million shares issued in our IPO, which closed on October 26, 2001. For the period October 26, 2001 through December 31, 2001, actual shares outstanding were used in the weighted-average share calculation.
- (5) During 2001, we issued 260.8 million shares of common stock as compensation in the demutualization and 115.0 million shares of common stock in our IPO. All shares issued have a \$0.01 per share par value.
- (6) As of December 31, 2001, represents: (i) additional paid-in capital from the demutualization resulting from the reclassification of residual retained earnings of Principal Mutual Holding Company, net of common stock issued (\$5,047.7 million); (ii) net proceeds, net of common stock issued, from the issuance of 115.0 million shares of common stock in our IPO (\$2,018.1 million); and (iii) common stock issued and held in a rabbi trust (\$6.7 million).
- (7) As of December 31, 2001, represents a \$29.1 million net loss for the period October 26, 2001 through December 31, 2001. Retained earnings as of October 26, 2001, were reclassified to additional paid-in capital as a result of our demutualization.

Table of Contents**DESCRIPTION OF THE SHARES**

The following is a brief description of the terms of the Shares, which does not purport to be complete in all respects. The description is subject to and qualified in its entirety by reference to our amended and restated certificate of incorporation and our certificate of designations with respect to the Shares, copies of which are available upon request from us.

General

Under our amended and restated certificate of incorporation, we have authority to issue up to 500 million shares of preferred stock, par value \$0.01 per share. At this time, we are issuing 10,000,000 Shares. When issued, at the time or times selected by us in our discretion, the Shares will be validly issued, fully paid and nonassessable. The holders of Shares will be entitled to receive non-cumulative cash dividends when, as and if declared out of assets legally available for payment in respect of such Shares by our board of directors in their sole discretion. In the event we do not declare dividends or do not pay dividends in full on the Shares on any date on which dividends are due, then such unpaid dividends will not cumulate and will no longer accrue and be payable.

Prior to the issuance of the Shares, we will have filed a certificate of designations with respect to the Shares with the Secretary of State of the State of Delaware. When issued, the Shares will have a fixed liquidation preference of \$25 per share. If we liquidate, dissolve or wind up our affairs, holders of Shares will be entitled to receive such amount per share, together with an amount equal to all accrued and unpaid dividends for the then-current Dividend Period, as defined below, to the date of payment. The Shares will not be convertible into our common stock or any other class or series of our securities and will not be subject to any sinking fund or any other obligation of us for their repurchase or retirement.

Concurrently with this offering of the Shares, we are offering shares of our Series A Non-Cumulative Perpetual Preferred Stock, having an aggregate liquidation preference of \$300,000,000 and referred to herein as the *Series A Preferred Stock*. The Series A Preferred Stock will rank equally with the Shares as to dividends and distributions on liquidation and will include the same provisions with respect to restrictions on declaration and payment of dividends and voting rights as apply to the Shares and as are described below under *Dividends*, *Restrictions on Declaration and Payment of Dividends* and *Voting Rights*. The Series A Preferred Stock will bear dividends at a fixed rate *per annum* of 5.563% until the Dividend Payment Date in June 2015 and, thereafter, at a rate *per annum* determined pursuant to remarketings or on a floating rate basis determined pursuant to provisions that are similar to those applicable to the Shares and described under *Dividends*, *Fixed Rate Period* and *Floating Rate Period*.

The offerings of the Shares and the Series A Preferred Stock are not contingent on each other.

Ranking

With respect to the payment of dividends and the amounts to be paid upon liquidation, the Shares will rank: (i) senior to our common stock and all other equity securities designated as ranking junior to the Shares; (ii) equally with the shares of our Series A Preferred Stock and with all other equity securities designated as ranking on parity with the Shares; and (iii) junior to all other equity securities designated as ranking senior to the Shares. See

Restrictions on Declaration and Payment of Dividends, *Interpretive Provisions and Qualifications* concerning the *pari passu* status of future series of preferred stock that do not include the restrictions on dividends described under *Restrictions on Declaration and Payment of Dividends* but that otherwise rank *pari passu* with the Shares.

During any Dividend Period, so long as any Shares remain outstanding, unless full dividends for the current Dividend Period on all outstanding Shares have been declared or paid, or declared and a sum sufficient for the payment thereof has been set aside:

no dividend whatsoever shall be paid or declared on our common stock or other junior stock, other than a dividend payable solely in junior stock; and

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no common stock or other junior stock shall be purchased, redeemed or otherwise acquired for consideration by us, directly or indirectly (other than as a result of the reclassification of such junior stock for or into other junior stock, or the exchange or conversion of one share of such junior stock for or into another share of such junior stock and other than through the use of the proceeds of a substantially contemporaneous sale of other shares of junior stock).

For any dividend period in which dividends are not paid in full upon the Shares (except for reasons described under Restrictions on Declaration and Payment of Dividends) and other parity stock having the same restrictions on the declaration and payment of dividends as the Shares, including the Series A Preferred Stock, all dividends declared for such dividend period with respect to the Shares and such other parity stock shall be declared on a *pro rata* basis.

Dividends**General**

Holders of Shares, in preference to the holders of our common stock and of any other shares of our stock ranking junior to the Shares as to payment of dividends, will be entitled to receive, when, as and if declared by our board of directors out of assets legally available for payment, cash dividends. Such dividends will be at the applicable Dividend Rate, as described below, applied to the \$25 liquidation preference per share and will be paid quarterly on the 30th day of each March, June, September and December in each year commencing on September 30, 2005 (each, a *Dividend Payment Date*), with respect to the Dividend Period, or portion thereof, ending on the day preceding the respective Dividend Payment Date. A *Dividend Period* means each period commencing on a Dividend Payment Date and continuing to but not including the next succeeding Dividend Payment Date, except that the first Dividend Period will commence upon the date of original issuance of the Shares. Dividends will be paid to holders of record on the respective date, not more than 60 nor less than 10 days preceding such Dividend Payment Date, fixed for that purpose by our board of directors in advance of payment of each particular dividend.

Dividends on the Shares offered hereby will accrue from June 17, 2005, which is expected to be the original issue date. If additional Shares are issued at a future date:

if such date is a Dividend Payment Date, such Shares will accrue dividends from such date; and

if such date is *not* a Dividend Payment Date, such Shares will accrue dividends from the Dividend Payment Date that immediately precedes the date on which such Shares were issued.

Dividend Rate means the rate at which dividends will accrue in respect of any Dividend Period, as described in this section, whether by remarketing or otherwise. From the date of original issuance of the Shares until the Dividend Payment Date in June 2035, which we refer to as the *Initial Fixed Rate Period*, the Dividend Rate on the Shares will be 6.518% *per annum* of the \$25 liquidation preference per Share, payable quarterly (equivalent to \$1.6295 per year per Share).

If any Dividend Payment Date with respect to a Fixed Rate Period, as defined below, is not a Business Day, then dividends will be payable on the first Business Day following such Dividend Payment Date, without accrual to the actual payment date. If any Dividend Payment Date with respect to a Floating Rate Period, as defined below, is not a Business Day, then dividends will be payable on the first Business Day following such Dividend Payment Date unless such day is the next calendar month, in which case dividends will be payable on the first business day preceding such Dividend Payment Date and dividends in each case will accrue to the actual payment date.

The amount of dividends payable on each Dividend Payment Date relating to a Fixed Rate Period will be computed on the basis of a 360-day year of twelve-30 day months. The amount of dividends payable per Share on each Dividend Payment Date relating to a Floating Rate Period will be computed by multiplying the *per annum* Dividend Rate in effect for such Dividend Period by a fraction, the numerator of which will be the actual number of days in such Dividend Period (or portion thereof) (determined by including the first day thereof and excluding

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the last day thereof) and the denominator of which will be 360, and multiplying the rates obtained (as described in Floating Rate Period below) by \$25.

Fixed Rate Period

Prior to the expiration of the Initial Fixed Rate Period, we will have the option to remarket the Shares to establish a new Dividend Rate *per annum*. We refer to such new Dividend Rate as a *Fixed Rate*. This new Fixed Rate would be in effect after the end of the Initial Fixed Rate Period and would remain in effect for such additional period as we determine in connection with the remarketing. We refer to the Initial Fixed Rate Period and any additional periods during which a Fixed Rate is in effect as a *Fixed Rate Period*. Any Fixed Rate Period must be for a duration of at least six months and must end on a Dividend Payment Date. Prior to the expiration of any Fixed Rate Period after the Initial Fixed Rate Period, we will have the option to remarket the Shares to establish a new Fixed Rate for a new Fixed Rate Period.

If the Remarketing Agent has determined that it will be able to remarket all Shares tendered or deemed tendered for purchase as described in Remarketing Procedures below, the Dividend Rate for the new Fixed Rate Period will be the Fixed Rate determined by the Remarketing Agent, which will be the Dividend Rate *per annum* (rounded to the nearest one-thousandth (0.001) of one percent *per annum*) that the Remarketing Agent determines, in its sole judgment, is the lowest Fixed Rate *per annum* that will enable it to remarket all of the Shares tendered or deemed tendered for remarketing at the \$25 liquidation preference per share.

If we elect not to remarket the Shares prior to the expiration of the Initial Fixed Rate Period or any subsequent Fixed Rate Period, or if we are unable to successfully remarket all Shares tendered for sale in a remarketing, then dividends on the Shares will accrue from such date and be payable at a Dividend Rate that we refer to as the *Floating Rate*, subject to our right to subsequently remarket such Shares to again establish a Fixed Rate for a new Fixed Rate Period. We may elect to remarket the Shares prior to any Dividend Payment Date relating to a period during which a Floating Rate is in effect, each such period a *Floating Rate Period*, in order to again establish a new Fixed Rate for a new Fixed Rate Period, which Fixed Rate would become effective after the then current Dividend Period.

Floating Rate Period

If we elect not to remarket the Shares prior to the expiration of the Initial Fixed Rate Period or any subsequent Fixed Rate Period, or if we are unable to successfully remarket all Shares tendered for sale in a remarketing, then dividends on the Shares will thereafter be payable at the Floating Rate. The Floating Rate will be reset quarterly and will equal 2.10% *plus* the Adjustable Rate. The *Adjustable Rate* for any Dividend Period will be equal to the highest of the 3-month LIBOR Rate, the 10-year Treasury CMT and the 30-year Treasury CMT (each as defined below and collectively referred to as the *Benchmark Rates*) for such Dividend Period during the Floating Rate Period. In the event that the Calculation Agent determines in good faith that for any reason:

any one of the Benchmark Rates cannot be determined for any Dividend Period, the Adjustable Rate for such Dividend Period will be equal to the higher of whichever two of such rates can be so determined;

only one of the Benchmark Rates can be determined for any Dividend Period, the Adjustable Rate for such Dividend Period will be equal to whichever such rate can be so determined; or

none of the Benchmark Rates can be determined for any Dividend Period, the Adjustable Rate for the preceding Dividend Period will be continued for such Dividend Period, provided that if such preceding Dividend Period was a Fixed Rate Period, the Fixed Rate for the preceding Dividend Period will be continued for such Dividend Period.

Each of the 10-year Treasury CMT and the 30-year Treasury CMT will be rounded to the nearest hundredth (0.01) of one percent *per annum* and the 3-month LIBOR Rate will be rounded to the nearest one-hundred-thousandth (0.00001) of one percent *per annum*. The Floating Rate with respect to each Dividend Period that occurs within a Floating Rate Period will be calculated as promptly as practicable by the Calculation Agent according to the appropriate method described above.

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During any Floating Rate Period and after receipt of written notice regarding such period's commencement, the Calculation Agent, as defined below, will (i) calculate the Floating Rate and the amount of dividends payable on each Dividend Payment Date relating to that Floating Rate Period, and (ii) promptly notify us of that Floating Rate for each new Dividend Period. The Floating Rate determined by the Calculation Agent, absent manifest error, will be binding and conclusive upon the beneficial owners and holders of the Shares and upon us.

As used in this section:

3-month LIBOR Rate means, with respect to any Dividend Period, the rate (expressed as a percentage *per annum*) for deposits in U.S. dollars for a 3-month period commencing on the first day of that Dividend Period that appears on Telerate Page 3750 as of 11:00 a.m. (London time) on the Dividend Determination Date for that Dividend Period. If such rate does not appear on Telerate Page 3750, 3-month LIBOR Rate will be determined on the basis of the rates at which deposits in U.S. dollars for a 3-month period commencing on the first day of that Dividend Period and in a principal amount of not less than \$1,000,000 are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by the Calculation Agent, at approximately 11:00 a.m., London time on the Dividend Determination Date for that Dividend Period. The Calculation Agent will request the principal London office of each of such banks to provide a quotation of its rate. If at least two such quotations are provided, 3-month LIBOR Rate with respect to that Dividend Period will be the arithmetic mean (rounded upward if necessary to the nearest .00001 of 1%) of such quotations. If fewer than two quotations are provided, 3-month LIBOR Rate with respect to that Dividend Period will be the arithmetic mean (rounded upward if necessary to the nearest .00001 of 1%) of the rates quoted by three major banks in New York City selected by the Calculation Agent, at approximately 11:00 a.m., New York City time, on the first day of that Dividend Period for loans in U.S. dollars to leading European banks for a 3-month period commencing on the first day of that Dividend Period and in a principal amount of not less than \$1,000,000. However, if the banks selected by the Calculation Agent to provide quotations are not quoting as described above, 3-month LIBOR Rate for that Dividend Period will be the same as 3-month LIBOR Rate as determined for the previous Dividend Period. The establishment of 3-month LIBOR Rate for each Dividend Period by the Calculation Agent will (in the absence of manifest error) be final and binding.

10-year Treasury CMT means the rate determined in accordance with the following provisions:

1. With respect to any Dividend Determination Date and the Dividend Period that begins immediately thereafter, the 10-Year Treasury CMT means the rate *per annum* for deposits for a 10-year period commencing on the Dividend Determination Date displayed on the Bloomberg interest rate page most nearly corresponding to Telerate Page 7051 containing the caption . . . Treasury Constant Maturities . . . Federal Reserve Board Release H.15 . . . Mondays Approximately 3:45 P.M., and the column for the Designated CMT Maturity Index.
2. If such rate is no longer displayed on the relevant page, or is not so displayed by 3:00 P.M., New York City time, on the applicable Dividend Determination Date, then the 10-year Treasury CMT for such Dividend Determination Date will be such treasury constant maturity rate for the Designated CMT Maturity Index as is published in H.15(519).
3. If such rate is no longer displayed on the relevant page, or if not published by 3:00 P.M., New York City time, on the applicable Dividend Determination Date, then the 10-year Treasury CMT for such Dividend Determination Date will be such constant maturity treasury rate for the Designated CMT Maturity Index (or other United States Treasury rate for the Designated CMT Maturity Index) for the applicable Dividend Determination Date as may then be published by either the Board of Governors of the Federal Reserve System or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate formerly displayed on the Bloomberg interest rate page most nearly corresponding to Telerate Page 7051 and published in H.15(519).

4.

If such information is not provided by 3:00 P.M., New York City time, on the applicable Dividend Determination Date, then the 10-year Treasury CMT for such Dividend Determination Date will be calculated by the Calculation Agent and will be a yield to maturity, based on the arithmetic

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mean of the secondary market offered rates as of approximately 3:30 P.M., New York City time, on such Dividend Determination Date reported, according to their written records, by three leading primary United States government securities dealers in The City of New York (each, a *Reference Dealer*) selected by the Calculation Agent (from five such Reference Dealers selected by the Calculation Agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)), for the most recently issued direct noncallable fixed rate obligations of the United States (*Treasury Debentures*) with an original maturity of approximately the Designated CMT Maturity Index and a remaining term to maturity of not less than such Designated CMT Maturity Index minus one year.

5. If the Calculation Agent is unable to obtain three such Treasury Debentures quotations, the 10-year Treasury CMT for the applicable Dividend Determination Date will be calculated by the Calculation Agent and will be a yield to maturity based on the arithmetic mean of the secondary market offered rates as of approximately 3:30 P.M., New York City time, on the applicable Dividend Determination Date of three Reference Dealers in The City of New York (from five such Reference Dealers selected by the Calculation Agent and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)), for Treasury Debentures with an original maturity of the number of years that is the next highest to the Designated CMT Maturity Index and a remaining term to maturity closest to the Designated CMT Maturity Index and in an amount of at least \$100 million.
6. If three or four (and not five) of such Reference Dealers are quoting as set forth above, then the 10-year Treasury CMT will be based on the arithmetic mean of the offered rates obtained and neither the highest nor lowest of such quotes will be eliminated; provided, however, that if fewer than three Reference Dealers selected by the Calculation Agent are quoting as set forth above, the 10-year Treasury CMT with respect to the applicable Dividend Determination Date will remain the 10-year Treasury CMT for the immediately preceding dividend period. If two Treasury Debentures with an original maturity as described in the second preceding sentence have remaining terms to maturity equally close to the Designated CMT Maturity Index, then the quotes for the Treasury Debentures with the shorter remaining term to maturity will be used.

30-year Treasury CMT has the meaning specified under our definition of 10-year Treasury CMT, except that (i) each reference to 10-year in the definition of the *10-year Treasury CMT* will be 30-year for the purposes of the *30-year Treasury CMT* and (ii) the Designated CMT Maturity Index for the 30-year Treasury CMT shall be 30 years.

Bloomberg means Bloomberg Financial Markets Commodities News.

Business Day means each Monday, Tuesday, Wednesday, Thursday or Friday on which banking institutions in the City of New York are not authorized or obligated by law, regulation or executive order to close.

Calculation Agent means Computershare Trust Company, Inc., or its successor appointed by us, acting as calculation agent.

Designated CMT Maturity Index means the original period to maturity of the U.S. Treasury securities with respect to which the 10-year Treasury CMT or the 30-year Treasury CMT, as applicable, will be calculated (which are ten years and thirty years, respectively).

Dividend Determination Date means the second London Banking Day immediately preceding the first day of the relevant Dividend Period in the Floating Rate Period.

London Banking Day means any day on which commercial banks are open for general business (including dealings in deposits in U.S. dollars) in London.

Telerate Page 3750 means the display page so designated on the Moneyline/Telerate Service (or such other page as may replace that page on that service, or such other service as may be nominated as the information

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vendor, for the purpose of displaying rates or prices comparable to London Interbank Offered Rate for U.S. dollar deposits).

Telerate Page 7051 means the display page so designated on the MoneyLine/Telerate Service (or any successor service), on such page (or any other page as may replace such page on that service), for the purpose of displaying Treasury Constant Maturities as reported in H.15(519).

Non-Cumulative Dividends

The dividends on the Shares will be non-cumulative. To the extent that any dividends payable on the Shares on any Dividend Payment Date are not declared and paid, in full or otherwise, on such Dividend Payment Date, then such unpaid dividends shall not cumulate and shall cease to accrue and be payable. We have no obligation to pay dividends accrued for such Dividend Period after the Dividend Payment Date for such Dividend Period or to pay interest with respect to such dividends, whether or not we declare dividends on the Shares for any subsequent Dividend Period.

Restrictions on Declaration and Payment of Dividends

We are prohibited from declaring dividends for payment on Shares on any Dividend Payment Date in an aggregate amount exceeding the New Common Equity Amount, if on that declaration date, either:

our Covered Insurance Subsidiaries Most Recent Weighted Average NAIC RBC Ratio was less than 175%; or

(x) our Trailing Four Quarters Consolidated Net Income Amount for the period ending on the quarter that is two quarters prior to the most recently completed quarter is less than or equal to zero *and* (y) our Adjusted Shareholders Equity Amount as of the most recently completed quarter and as of the end of the quarter that is two quarters before the most recently completed quarter has declined by 10% or more as compared to our Adjusted Shareholders Equity Amount at the date that is ten quarters prior to the most recently completed quarter (the *Benchmark Quarter End Test Date*).

The limitation on dividends provided for in the first bullet point above will be of no force and effect if, as of a dividend declaration date, the combined total assets of our Insurance Subsidiaries do not account for 25% or more of our consolidated total assets as reflected on our most recent consolidated financial statements.

If we fail to satisfy either of the above tests for any Dividend Payment Date, the restrictions on dividends will continue until we are able to again satisfy both tests for a dividend payment date. In addition, in the case of a restriction arising under the second bullet point above, the restriction on payment of dividends on Shares in an aggregate amount exceeding the New Common Equity Amount will continue until we satisfy the two tests set forth above for a Dividend Payment Date *and* our Adjusted Shareholders Equity Amount has increased, or has declined by less than 10%, in either case as compared to our Adjusted Shareholders Equity Amount at the end of the Benchmark Quarter End Test Date for each Dividend Payment Date as to which dividend restrictions were imposed under the second test above. For example, if we failed to satisfy the second test above for three consecutive Dividend Payment Dates, we would be able to declare dividends on Shares on the fourth Dividend Payment Date only if, as of the related declaration date:

we satisfied both of the tests set forth above for that fourth Dividend Payment Date; and

our Adjusted Shareholders Equity Amount as of the last completed quarter for that Dividend Payment Date had increased from, or was less than 10% below, its level as of the end of each of the eleventh, twelfth and thirteenth quarters, preceding the most recently completed quarter.

The information required to calculate the Covered Insurance Subsidiaries Most Recent Weighted Average NAIC RBC Ratio for a year will be set forth in the Annual Statements of the Covered Insurance Subsidiaries, which are typically filed on or before March 1 of the following year.

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For purposes of these tests:

for the quarters ended on March 31, 2005 and September 30, 2004, our Trailing Four Quarters Consolidated Net Income Amounts were \$837.5 million and \$816.0 million, respectively; and

our Adjusted Shareholders' Equity Amount as of March 31, 2005, as compared to such amount as of September 30, 2004 had decreased by 1.80% and as compared to such amount at September 30, 2002 had increased by 2.78%.

Although the foregoing tests would not restrict our board of directors or a committee of the board from declaring dividends on the Shares currently, there can be no assurance that future financial results will not result in these tests restricting the declaration of dividends.

The term *Covered Insurance Subsidiaries' Most Recent Weighted Average NAIC RBC Ratio* is defined below and is based upon the RBC or risk-based capital ratios that insurance companies are required to calculate and report to their regulators as of the end of each year in accordance with prescribed procedures. The ratio measures the relationship of an insurance company's total adjusted capital, calculated in accordance with those prescribed procedures, relative to a standard that is determined based on the magnitude of various risks present in an insurance company's operations. The NAIC's Model Act, as defined below, sets forth the RBC levels, ranging from the company action level to the mandatory control level, at which certain corrective actions are required and at which a state insurance regulator is authorized and expected to take regulatory action.

The highest RBC level is known as the company action level. If an insurance company's total adjusted capital is greater than the company action level, no corrective action is required to be taken. At progressively lower levels of total adjusted capital, an insurance company faces increasingly rigorous levels of corrective action, including the submission of a comprehensive financial plan to the insurance regulator in its state of domicile, a mandatory examination or analysis of the insurance company's business and operations by the regulator and the issuance of appropriate corrective orders to address the insurance company's financial problems, and, at the lowest levels, either voluntary or mandatory action by the regulator to place the insurer under regulatory control. The company action level is twice the level (known as the authorized control level) below which the regulator is authorized (but not yet required) to place the insurance company under regulatory control. The Covered Insurance Subsidiaries' Most Recent Weighted Average NAIC RBC Ratio is based upon the company action level.

As of December 31, 2004, each of our insurance subsidiaries' total adjusted capital was in excess of the company action level.

With the exception of statutory accounting terms such as *General Account Admitted Assets* and terms that have specific insurance regulatory meanings such as risk-based capital, all financial terms used in this caption *Restrictions on Declaration and Payment of Dividends* will be determined in accordance with U.S. GAAP as applied and reflected in our related financial statements as of the relevant dates, except as provided in the next sentence. If because of a change in U.S. GAAP that results in a cumulative effect of a change in accounting principle, either:

our consolidated net income for the quarter in which such change takes effect is higher or lower than it would have been absent such change by the greater of \$25 million or 5%, and our Trailing Four Quarters Consolidated Net Income Amount is higher or lower than it would have been absent such change, then, for purposes of calculating the calculations described in the second test set forth above, commencing with the fiscal quarter for which such changes in U.S. GAAP becomes effective and ending with the third quarter thereafter, such Trailing Four Quarters Consolidated Net Income Amount will be calculated on a *pro forma* basis as if such change had not occurred; or

our Adjusted Shareholders' Equity Amount as of the end of the quarter in which such change takes effect is higher or lower than it would have been absent such change by the greater of \$65 million or 1%, then, for purposes of the calculations described in the second test set forth above, and for so long as such calculations with respect to such quarter are required to be performed, our Adjusted Shareholders' Equity Amount will be calculated on a *pro forma* basis as if such change had not occurred.

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If at any relevant time or for any relevant period, we are not a reporting company under the Securities Exchange Act of 1934, as amended (the *Exchange Act*), then for any such relevant dates and periods we will prepare and post on our web site the financial statements that we would have been required to file with the Securities and Exchange Commission had we continued to be a reporting company under the Exchange Act, in each case on or before the dates that we would have been required to file such financial statements had we continued to be an accelerated filer within the meaning of Rule 12b-2 under the Exchange Act.

As used in this section:

Adjusted Shareholders Equity Amount means, as of any quarter end, our shareholders equity, as reflected on our consolidated balance sheet as of such quarter end, excluding (i) accumulated other comprehensive income and loss and (ii) any increase in our shareholders equity resulting from the issuance of preferred stock (other than the Shares or the Series A Preferred Stock) during the period from and including the first Dividend Payment Date on which we were restricted in our ability to pay dividends on Shares as a result of our Trailing Four Quarters Consolidated Net Income Amount having been less than zero and our Adjusted Shareholders Equity having declined by 10% or more as compared to the Benchmark Quarter End Test Date, in each case, as reflected on such consolidated balance sheet.

Annual Statement means, as to an Insurance Subsidiary, the annual statement of such Insurance Subsidiary containing its statutory balance sheet and income statement as required to be filed by it with one or more state insurance commissioners or other state insurance regulatory authorities.

Company Action Level RBC has the meaning specified in subsection J of Section 1 (or the relevant successor section, if any) of the Model Act.

Covered Insurance Subsidiaries means, as of any year end, Insurance Subsidiaries that account for 80% or more of the combined General Account Admitted Assets of our Insurance Subsidiaries as of such year end. Our Insurance Subsidiaries as of a year end will be identified by first ranking the Insurance Subsidiaries from largest to smallest based upon the amount of each Insurance Subsidiary's General Account Admitted Assets and then, beginning with the Insurance Subsidiary that has the largest amount of General Account Admitted Assets as of such year end, identifying such Insurance Subsidiaries as Covered Insurance Subsidiaries until the ratio of the combined General Account Admitted Assets of the Insurance Subsidiaries so identified to the combined General Account Admitted Assets of all of the Insurance Subsidiaries as of such year end equals or exceeds 80%.

Covered Insurance Subsidiaries Most Recent Weighted Average NAIC RBC Ratio means, as of any date, an amount (expressed as a percentage) calculated as (i) the sum of the Total Adjusted Capital of each of our Covered Insurance Subsidiaries as shown on such Covered Insurance Subsidiary's most recently filed Annual Statement, divided by (ii) the sum of the Company Action Level RBC of each of our Covered Insurance Subsidiaries as shown on such Covered Subsidiary's most recently filed Annual Statement.

General Account Admitted Assets means, as to an Insurance Subsidiary as of any year end, the total admitted assets of such Insurance Subsidiary as reflected on the balance sheet included in its statutory financial statements as of such year end minus the separate account assets reflected on such balance sheet.

Insurance Subsidiary means any of our subsidiaries that is organized under the laws of any state in the United States and is licensed as a life insurance company in any state in the United States but does not include any subsidiary of an Insurance Subsidiary.

Model Act means the Risk-Based Capital (RBC) for Insurers Model Act as prepared by the NAIC and included in its Model Laws, Regulations and Guidelines as of June 14, 2005 and as hereafter amended, modified

or supplemented.

NAIC means the National Association of Insurance Commissioners.

New Common Equity Amount means, at any date, the net proceeds (after underwriters or placement agents fees, commissions or discounts and other expenses relating to the issuances) received by us from new issuances of our common stock (whether in one or more public offerings registered under the Securities

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Act or private placements or other transactions exempt from registration under the Securities Act) during the period commencing on the 90th day prior to such date, and which are designated by our board of directors at or before the time of issuance as available to pay dividends on the Shares.

Securities Act means the Securities Act of 1933, as amended.

Total Adjusted Capital has the meaning specified in subsection M of Section 1 (or the relevant successor section, if any) of the Model Act.

Trailing Four Quarters Consolidated Net Income Amount means, for any period ending on the last day of a fiscal quarter, the sum of our consolidated U.S. GAAP net income for the four fiscal quarters ending on the last day of such fiscal quarter, with losses being treated as negative numbers for such purpose.

U.S. GAAP means, at any date or for any period, U.S. generally accepted accounting principles as in effect on such date or for such period.

Notices Related to Potential or Actual Restrictions on Declaration and Payment of Dividends

We are required to give notice to holders of Shares of a potential restriction on the declaration and payment of dividends that could take effect for a subsequent Dividend Payment Date two quarters in the future if:

our Trailing Four Quarters Consolidated Net Income Amount for the most recently completed quarter is less than or equal to zero; and

our Adjusted Shareholders' Equity Amount as of the most recently completed quarter has declined by 10% or more as compared to our Adjusted Shareholders' Equity Amount as of the Date that is eight quarters prior to the most recently completed quarter.

We will send such a notice no later than the First Dividend Payment Date following the end of the most recently completed quarter as of which the above tests indicate that a potential restriction on declaration and payment of dividends could occur. Such notice will be sent by first class mail, postage prepaid, addressed to the holders of record of Shares at their respective last addresses appearing on our books and will file a copy of such notice on Form 8-K with the Securities and Exchange Commission. Such notice will (i) set forth the results of our Trailing Four Quarters Consolidated Net Income Amount and our Adjusted Shareholders' Equity Amounts for the relevant period and dates, and (ii) state that we may be limited by the terms of the Shares from declaring and paying dividends on such future Dividend Payment Amount unless we, through the generation of earnings or new issuances of our common stock, increase our Adjusted Shareholders' Equity Amount by an amount specified in such notice by the second dividend payment date after the date of such notice.

By not later than the 15th day prior to each Dividend Payment Date for which dividends are being suspended because we have failed either of the two tests set forth above and we are not otherwise able to pay dividends out of New Common Equity Amount, we will give notice of such suspension by first class mail, postage prepaid, addressed to the holders of record of the Shares, and will file a copy of such notice on Form 8-K with the Securities and Exchange Commission. Such notice, in addition to stating that dividends will be suspended, will set forth the fact that the covered insurance subsidiaries' risk-based capital ratio is less than 175% of such subsidiaries' company action level if dividends are suspended by reason of failing to satisfy the first test above and the applicable Adjusted Shareholders' Equity Amount (and the amount by which our Adjusted Shareholders' Equity Amount must increase in order for declaration and payment of dividends to be resumed) if dividends are suspended by reason of failing to satisfy the second test above.

Interpretive Provisions and Qualifications

In order to give effect to the foregoing, the terms of the Shares prohibit our board of directors or any committee of the board from declaring dividends on the Shares on a declaration date (i) that is more than 60 days prior to the related Dividend Payment Date or (ii) that is earlier than the date on which our financial statements for the most recently completed quarter prior to the related Dividend Payment Date have been filed with or furnished to the Securities and

Exchange Commission for example, on a Form 10-K, 10-Q or 8-K or have otherwise been made publicly available. The limitation in clause (ii) of the preceding sentence is subject to the exception that, if the board of directors determines to delay filing its financial statements with the Securities and Exchange Commission

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to a date later than the date on which accelerated filers under the Securities and Exchange Commission's rules would normally be required to file such financial statements, for example because of concerns over the accuracy of such financial statements or their compliance with U.S. GAAP, then the board of directors or a committee of the board will be permitted to determine the ability of the board of directors or a committee to declare dividends under the capital and financial tests outlined above based upon our financial statements as most recently filed with the Securities and Exchange Commission or otherwise made publicly available.

Any other class or series of our preferred stock will not be deemed to rank senior to (or other than on a parity with) the Shares in the payment of dividends solely because such other class or series of our stock does not include the limitation on payment of dividends (and the related exceptions) described in Restrictions on Declaration and Payment of Dividends. Therefore, we may pay dividends on the shares of any such other class or series of our stock that is otherwise on a parity with the Shares for periods during which we may not pay dividends on the Shares because of such limitation.

Conversion Rights

The Shares will not be convertible into shares of any other class or series of our stock.

Redemption

The Shares may not be redeemed prior to the Dividend Payment Date in June 2015.

The Shares may be redeemed, in whole or in part, at our option:

on any Dividend Payment Date during the Initial Fixed Rate Period, beginning on or after the Dividend Payment Date in June 2015;

on such dates with respect to any other Fixed Rate Period as we may determine prior to the commencement of such Fixed Rate Period; or

at any time during a Floating Rate Period.

Any such redemption will be at a cash redemption price of \$25 per share, together, in each case, with accrued and unpaid dividends for the then-current Dividend Period to the date of redemption.

If fewer than all of the outstanding Shares are to be redeemed, the Shares to be redeemed will be selected either *pro rata* from the holders of record of the Shares in proportion to the number of Shares held by such holders or by lot or in such other manner as our board of directors may determine to be fair and equitable. We may not partially redeem the Shares if, after giving effect to the redemption, less than 2,000,000 Shares remain outstanding. Subject to this section, our board of directors will have the full power and authority to prescribe the terms and conditions upon which Shares will be redeemed from time to time.

We will mail notice of every redemption of Shares by first class mail, postage prepaid, addressed to the holders of record of the Shares to be redeemed at their respective last addresses appearing on our books. Such mailing will be at least 30 days and not more than 60 days before the date fixed for redemption. Any notice mailed as provided in this paragraph will be conclusively presumed to have been duly given, whether or not the holder receives such notice, but failure duly to give such notice by mail, or any defect in such notice or in the mailing of such notice, to any holder of Shares designated for redemption will not affect the redemption of any other Shares. Each notice shall state (i) the redemption date; (ii) the number of Shares to be redeemed; (iii) the redemption price; (iv) the place or places where the Shares are to be redeemed; and (v) that dividends on the shares to be redeemed will cease to accrue on the redemption date.

We intend that, if we redeem Shares, we will redeem Shares only to the extent the aggregate redemption price is less than the net proceeds received by us from new issuances by us during the period commencing on the 180th day prior to the date of redemption to purchasers other than our affiliates of any securities which have equal or greater equity characteristics for us as the Shares. This intention also applies to any Shares that any regulatory authority requires us to redeem, unless such regulatory authority directs us otherwise, and to any Shares that we

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would redeem as a result of any change in the treatment given to the Shares under applicable tax law or U.S. GAAP.

Liquidation Rights

In the event that we voluntarily or involuntarily liquidate, dissolve or wind up our affairs, holders of Shares will be entitled to receive an amount equal to the \$25 per share liquidation preference, together with an amount equal to all accrued and unpaid dividends for the then-current Dividend Period to the date of payment. Holders of the Shares will be entitled to receive the \$25 liquidation preference per share out of our assets that are available for distribution to stockholders, after satisfying claims of creditors but before any distribution of assets is made to holders of our common stock or any other shares ranking, as to such distribution, junior to the Shares.

If our assets are not sufficient to pay the \$25 per share liquidation preference in full to all holders of Shares and all holders of any shares of our stock ranking as to any such distribution on a parity with the Shares, the amounts paid to the holders of Shares and to such other shares will be paid *pro rata* in accordance with the respective aggregate liquidation preferences of those holders. If the \$25 liquidation preference per share has been paid in full to all holders of Shares and the liquidation preference of any other shares ranking on parity with the Shares has been paid in full, the holders of our common stock or any other shares ranking, as to such distribution, junior to the Shares will be entitled to receive all of our remaining assets according to their respective rights and preferences.

For purposes of the liquidation rights, a consolidation or merger by us with or into any other entity, including a merger in which the holders of Shares receive cash or property for their shares, or the sale of all or substantially all of our assets, will not constitute a liquidation, dissolution or winding up of our affairs.

Voting Rights

Except as indicated below or otherwise required by law, the holders of Shares will not have any voting rights.

Right to Elect Two Directors Upon Non-Payment of Dividends

If and whenever dividends on the Shares and any other class or series of our stock that ranks on parity with Shares as to payment of dividends have not been paid in an aggregate amount equal, as to any such class or series, to at least six quarterly dividends (whether or not consecutive), the number of directors then constituting our board