

GENWORTH FINANCIAL INC
Form 10-Q
May 08, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

OR

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

For the transition period from to

Commission file number 001-32195

GENWORTH FINANCIAL, INC.

(Exact Name of Registrant as Specified in its Charter)

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Delaware (State or Other Jurisdiction of Incorporation or Organization)	33-1073076 (I.R.S. Employer Identification Number)
6620 West Broad Street Richmond, Virginia (Address of Principal Executive Offices)	23230 (Zip Code)
(804) 281-6000 (Registrant's Telephone Number, Including Area Code)	

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer
Non-accelerated Filer Smaller reporting company

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

At May 5, 2009, 433,201,332 shares of Class A Common Stock, par value \$0.001 per share, were outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****GENWORTH FINANCIAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Amounts in millions, except per share amounts)

(Unaudited)

	Three months ended March 31,	
	2009	2008
Revenues:		
Premiums	\$ 1,502	\$ 1,717
Net investment income	711	1,002
Net investment gains (losses)	(770)	(226)
Insurance and investment product fees and other	291	260
Total revenues	1,734	2,753
Benefits and expenses:		
Benefits and other changes in policy reserves	1,508	1,401
Interest credited	275	345
Acquisition and operating expenses, net of deferrals	441	528
Amortization of deferred acquisition costs and intangibles	247	203
Interest expense	96	112
Total benefits and expenses	2,567	2,589
Income (loss) before income taxes	(833)	164
Provision (benefit) for income taxes	(364)	48
Net income (loss)	\$ (469)	\$ 116
Earnings (loss) per common share:		
Basic	\$ (1.08)	\$ 0.27
Diluted	\$ (1.08)	\$ 0.27
Weighted-average common shares outstanding:		
Basic	433.2	433.6
Diluted	433.2	436.8

See Notes to Condensed Consolidated Financial Statements

Table of Contents**GENWORTH FINANCIAL, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Amounts in millions, except per share amounts)

	March 31, 2009 (Unaudited)	December 31, 2008
Assets		
Investments:		
Fixed maturity securities available-for-sale, at fair value	\$ 41,319	\$ 42,871
Equity securities available-for-sale, at fair value	221	234
Commercial mortgage loans	8,023	8,262
Policy loans	1,842	1,834
Other invested assets	6,080	7,411
Total investments	57,485	60,612
Cash and cash equivalents	7,064	7,328
Accrued investment income	821	736
Deferred acquisition costs	7,716	7,786
Intangible assets	1,142	1,147
Goodwill	1,314	1,316
Reinsurance recoverable	17,398	17,212
Other assets	998	1,000
Deferred tax asset	1,631	1,037
Separate account assets	8,576	9,215
Total assets	\$ 104,145	\$ 107,389
Liabilities and stockholders' equity		
Liabilities:		
Future policy benefits	\$ 28,763	\$ 28,533
Policyholder account balances	33,196	34,702
Liability for policy and contract claims	5,815	5,322
Unearned premiums	4,482	4,734
Other liabilities	6,316	6,860
Non-recourse funding obligations	3,443	3,455
Short-term borrowings	930	1,133
Long-term borrowings	4,131	4,261
Deferred tax liability	264	248
Separate account liabilities	8,576	9,215
Total liabilities	95,916	98,463
Commitments and contingencies		
Stockholders' equity:		
Class A common stock, \$0.001 par value; 1.5 billion shares authorized; 522 million shares issued as of March 31, 2009 and December 31, 2008; 433 million shares outstanding as of March 31, 2009 and December 31, 2008	1	1
Additional paid-in capital	11,485	11,477

Accumulated other comprehensive income (loss):

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Net unrealized investment gains (losses)	(4,095)	(4,038)
Derivatives qualifying as hedges	1,061	1,161
Foreign currency translation and other adjustments	(264)	(185)
Total accumulated other comprehensive income (loss)	(3,298)	(3,062)
Retained earnings	2,741	3,210
Treasury stock, at cost (88 million shares as of March 31, 2009 and December 31, 2008)	(2,700)	(2,700)
Total stockholders' equity	8,229	8,926
Total liabilities and stockholders' equity	\$ 104,145	\$ 107,389

See Notes to Condensed Consolidated Financial Statements

Table of Contents**GENWORTH FINANCIAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

(Amounts in millions)

(Unaudited)

	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury stock, at cost	Total stockholders equity
Balances as of December 31, 2007	\$ 1	\$ 11,461	\$ 727	\$ 3,913	\$ (2,624)	\$ 13,478
Comprehensive income (loss):						
Net income (loss)				116		116
Net unrealized gains (losses) on investment securities			(953)			(953)
Derivatives qualifying as hedges			147			147
Foreign currency translation and other adjustments			44			44
Total comprehensive income (loss)						(646)
Acquisition of treasury stock					(76)	(76)
Dividends to stockholders				(43)		(43)
Stock-based compensation expense and exercises and other		12				12
Balances as of March 31, 2008	\$ 1	\$ 11,473	\$ (35)	\$ 3,986	\$ (2,700)	\$ 12,725
	Common stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury stock, at cost	Total stockholders equity
Balances as of December 31, 2008	\$ 1	\$ 11,477	\$ (3,062)	\$ 3,210	\$ (2,700)	\$ 8,926
Comprehensive income (loss):						
Net income (loss)				(469)		(469)
Net unrealized gains (losses) on investment securities			(57)			(57)
Derivatives qualifying as hedges			(100)			(100)
Foreign currency translation and other adjustments			(79)			(79)
Total comprehensive income (loss)						(705)
Stock-based compensation expense and exercises and other		8				8
Balances as of March 31, 2009	\$ 1	\$ 11,485	\$ (3,298)	\$ 2,741	\$ (2,700)	\$ 8,229

See Notes to Condensed Consolidated Financial Statements

Table of Contents**GENWORTH FINANCIAL, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Amounts in millions)****(Unaudited)**

	Three months ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ (469)	\$ 116
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Amortization of fixed maturity discounts and premiums	82	(8)
Net investment losses (gains)	770	226
Charges assessed to policyholders	(103)	(100)
Acquisition costs deferred	(194)	(331)
Amortization of deferred acquisition costs and intangibles	247	203
Deferred income taxes	(502)	25
Net increase (decrease) in trading and derivative instruments	(56)	(37)
Stock-based compensation expense	8	9
Change in certain assets and liabilities:		
Accrued investment income and other assets	(70)	(190)
Insurance reserves	468	1,209
Current tax liabilities	83	(25)
Other liabilities and other policy-related balances	519	28
Net cash from operating activities	783	1,125
Cash flows from investing activities:		
Proceeds from maturities and repayments of investments:		
Fixed maturity securities	901	974
Commercial mortgage loans	239	254
Proceeds from sales of investments:		
Fixed maturity and equity securities	947	922
Purchases and originations of investments:		
Fixed maturity and equity securities	(825)	(1,544)
Commercial mortgage loans		(121)
Other invested assets, net		(77)
Policy loans, net	(8)	(3)
Payments for businesses purchased, net of cash acquired		(5)
Net cash from investing activities	1,254	400
Cash flows from financing activities:		
Proceeds from issuance of investment contracts	773	1,547
Redemption and benefit payments on investment contracts	(2,803)	(2,207)
Short-term borrowings and other, net	(82)	(19)
Repayment and repurchase of long-term borrowings	(79)	
Redemption of non-recourse funding obligations	(12)	
Dividends paid to stockholders		(44)
Stock-based compensation awards exercised		2
Acquisition of treasury stock		(76)

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Net cash from financing activities	(2,203)	(797)
Effect of exchange rate changes on cash and cash equivalents	(98)	(51)
Net change in cash and cash equivalents	(264)	677
Cash and cash equivalents at beginning of period	7,328	3,091
Cash and cash equivalents at end of period	\$ 7,064	\$ 3,768

See Notes to Condensed Consolidated Financial Statements

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Formation of Genworth and Basis of Presentation

Genworth Financial, Inc. (Genworth) was incorporated in Delaware on October 23, 2003. The accompanying condensed financial statements include on a consolidated basis the accounts of Genworth and our affiliate companies in which we hold a majority voting or economic interest, which we refer to as the Company, we, us or our unless the context otherwise requires. All intercompany accounts and transactions have been eliminated in consolidation.

We have the following three operating segments:

Retirement and Protection. We offer a variety of protection, wealth management, retirement income and institutional products. Our primary protection products include: life, long-term care and Medicare supplement insurance. Additionally, we offer wellness and care coordination services for our long-term care policyholders. Our wealth management and retirement income products include: a variety of managed account programs, financial planning services and mutual funds, fixed and variable deferred and immediate individual annuities and group variable annuities offered through retirement plans. Most of our variable annuities include a guaranteed minimum death benefit (GMDB). Some of our group and individual variable annuity products include guaranteed minimum benefit features such as guaranteed minimum withdrawal benefits (GMWB) and certain types of guaranteed annuitization benefits. Institutional products include: funding agreements, funding agreements backing notes (FABNs) and guaranteed investment contracts (GICs).

International. We are a leading provider of mortgage insurance products in Canada, Australia, New Zealand, Mexico and multiple European countries. We primarily offer products in the flow market. On a limited basis, we also provide mortgage insurance on a structured, or bulk, basis that aids in the sale of mortgages to the capital markets and helps lenders manage capital and risk. Additionally, we offer services, analytical tools and technology that enable lenders to operate efficiently and manage risk. We also offer payment protection coverages in multiple European countries, Canada and Mexico. Our lifestyle protection insurance products help consumers meet specified payment obligations should they become unable to pay due to accident, illness, involuntary unemployment, disability or death.

U.S. Mortgage Insurance. In the U.S., we offer mortgage insurance products predominantly insuring prime-based, individually underwritten residential mortgage loans, also known as flow mortgage insurance. We selectively provide mortgage insurance on a structured, or bulk, basis with essentially all of our bulk writings prime-based. Additionally, we offer services, analytical tools and technology that enable lenders to operate efficiently and manage risk.

We also have Corporate and Other activities which include debt financing expenses that are incurred at our holding company level, unallocated corporate income and expenses, eliminations of inter-segment transactions and the results of non-core businesses that are managed outside of our operating segments.

The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and rules and regulations of the U.S. Securities and Exchange Commission (SEC). Preparing financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates. Certain prior year amounts have been reclassified to conform to the current year presentation. These condensed consolidated financial statements include all adjustments considered necessary by management to present a fair statement of the financial position, results of operations and cash flows for the periods presented. The results reported in these condensed consolidated financial

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GENWORTH FINANCIAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

statements should not be regarded as necessarily indicative of results that may be expected for the entire year. The condensed consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements and related notes contained in our 2008 Annual Report on Form 10-K.

(2) Accounting Pronouncements

Recently adopted

Disclosures about Derivative Instruments and Hedging Activities

On January 1, 2009, we adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*. This statement requires enhanced disclosures about an entity's derivative and hedging activities. The adoption of SFAS No. 161 did not have a material impact on our consolidated financial statements.

Business Combinations

On January 1, 2009, we adopted SFAS No. 141R, *Business Combinations*. This statement establishes principles and requirements for how an acquirer recognizes and measures certain items in a business combination, as well as disclosures about the nature and financial effects of a business combination. The adoption of SFAS No. 141R did not have a material impact on our consolidated financial statements.

Noncontrolling Interest in Consolidated Financial Statements

On January 1, 2009, we adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*. This statement establishes accounting and reporting standards for noncontrolling interests in a subsidiary and for deconsolidation of a subsidiary. The adoption of SFAS No. 160 did not have a material impact on our consolidated financial statements.

Effective Date of FASB Statement No. 157

On January 1, 2009, we adopted FASB Staff Position (FSP) FAS 157-2, *Effective Date of FASB Statement No. 157*, which adopts SFAS No. 157, *Fair Value Measurements*, for fair value measurements of certain nonfinancial assets and liabilities, such as impairment testing of goodwill and indefinite-lived intangible assets. The adoption of FSP FAS 157-2 did not have a material impact on our consolidated financial statements.

Not yet adopted

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP provides additional guidance for determining fair value when the volume or level of activity for an asset or liability has significantly decreased and identifies circumstances that indicate a transaction is not orderly. This FSP will be effective for us on April 1, 2009. We have not yet determined the impact the adoption of FSP FAS 157-4 will have on our consolidated financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP amends the other-than-temporary impairment guidance for debt

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securities and modifies the presentation and disclosure requirements for other-than-temporary impairment disclosures for debt and equity securities. The FSP amends the requirement for an entity to positively assert the ability and intent to hold a debt security to recovery to determine whether an other-than-temporary impairment exists and replaces this provision with the assertion that an entity does not intend to sell or it is not more likely than not that the entity will be required to sell a security prior to recovery. Additionally, the FSP modifies the presentation of other-than-temporary impairments for certain debt securities to only present the impairment loss within income that represents the credit loss associated with the other-than-temporary impairment with the remaining impairment loss being presented within other comprehensive income (loss) (OCI). This FSP will be effective for us on April 1, 2009. Upon adoption of FSP FAS 115-2 and FAS 124-2, we expect to record a cumulative effect adjustment of approximately \$400 million, after-tax but before the impact of deferred acquisition costs and other adjustments, to retained earnings with an offset to accumulated other comprehensive income (loss).

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP amends the fair value disclosure requirements for certain financial instruments to require the disclosures during interim reporting periods of publicly traded entities in addition to annual financial statements. This FSP will be effective for us on April 1, 2009. The adoption of FSP FAS 107-1 and APB 28-1 is not expected to have a material impact on our consolidated financial statements.

(3) Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share are calculated by dividing net income (loss) by the weighted-average basic and diluted shares outstanding for the periods indicated:

(Amounts in millions, except per share amounts)	Three months ended March 31,	
	2009	2008
Basic earnings (loss) per common share	\$ (1.08)	\$ 0.27
Diluted earnings (loss) per common share	\$ (1.08)	\$ 0.27
Weighted-average shares used in basic earnings (loss) per common share calculations	433.2	433.6
Potentially dilutive securities:		
Stock options, restricted stock units and stock appreciation rights		3.2
Weighted-average shares used in diluted earnings (loss) per common share calculations ⁽¹⁾	433.2	436.8

⁽¹⁾ As a result of our net loss for the three months ended March 31, 2009, we were required under SFAS No. 128, *Earnings per Share*, to use basic weighted-average common shares outstanding in the calculation of the 2009 diluted loss per share, as the inclusion of shares for stock options, restricted stock units and stock appreciation rights of 53,858 would have been antidilutive to the calculation. If we had not incurred a net loss, dilutive potential common shares would have remained at 433.2 million given the insignificant impact of the antidilutive shares.

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The following table sets forth net investment gains (losses) for the periods indicated:

(Amounts in millions)	Three months ended March 31,	
	2009	2008
Available-for-sale securities:		
Realized gains on sale	\$ 29	\$ 14
Realized losses on sale	(63)	(10)
Impairments	(597)	(187)
Trading securities	(12)	(7)
Commercial mortgage loans	(6)	2
Derivative instruments	(121)	(34)
Other		(4)
Net investment gains (losses)	\$ (770)	\$ (226)

Fixed Maturity and Equity Securities

As of March 31, 2009, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

(Amounts in millions)	Amortized cost or cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fixed maturity securities:				
U.S. government, agencies and government sponsored entities	\$ 933	\$ 62	\$ (1)	\$ 994
Tax exempt	2,570	85	(191)	2,464
Government non-U.S.	1,636	95	(59)	1,672
U.S. corporate	21,237	141	(3,236)	18,142
Corporate non-U.S.	11,057	251	(1,494)	9,814
Mortgage and asset-backed	10,907	158	(2,832)	8,233
Total fixed maturity securities	48,340	792	(7,813)	41,319
Equity securities	282	2	(63)	221
Total available-for-sale securities	\$ 48,622	\$ 794	\$ (7,876)	\$ 41,540

As of December 31, 2008, the amortized cost or cost, gross unrealized gains (losses) and fair value of our fixed maturity and equity securities classified as available-for-sale were as follows:

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(Amounts in millions)	Amortized cost or cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fixed maturity securities:				
U.S. government, agencies and government sponsored entities	\$ 764	\$ 141	\$	\$ 905
Tax exempt	2,529	70	(228)	2,371
Government non-U.S.	1,724	103	(67)	1,760
U.S. corporate	21,789	253	(2,968)	19,074
Corporate non-U.S.	11,439	118	(1,581)	9,976
Mortgage and asset-backed	11,632	166	(3,013)	8,785
Total fixed maturity securities	49,877	851	(7,857)	42,871
Equity securities	301	4	(71)	234
Total available-for-sale securities	\$ 50,178	\$ 855	\$ (7,928)	\$ 43,105

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The following table presents the gross unrealized losses and fair values of our investment securities, aggregated by investment type and length of time that individual investment securities have been in a continuous unrealized loss position, as of March 31, 2009:

(Dollar amounts in millions) Description of Securities	Less than 12 months			12 months or more		
	Fair value	Gross unrealized losses	# of securities	Fair value	Gross unrealized losses	# of securities
Fixed maturity securities:						
U.S. government, agencies and government sponsored entities	\$	\$		\$ 7	\$ (1)	1
Tax exempt	533	(32)	144	396	(159)	149
Government non-U.S.	247	(32)	94	80	(27)	51
U.S. corporate	5,431	(632)	657	8,692	(2,604)	919
Corporate non-U.S.	1,952	(310)	402	4,070	(1,184)	554
Mortgage and asset-backed	1,238	(180)	342	5,213	(2,652)	876
Subtotal, fixed maturity securities	9,401	(1,186)	1,639	18,458	(6,627)	2,550
Equity securities	97	(43)	18	30	(20)	8
Total temporarily impaired securities	\$ 9,498	\$ (1,229)	1,657	\$ 18,488	\$ (6,647)	2,558
% Below cost fixed maturity securities:						
<20% Below cost	\$ 8,240	\$ (572)	1,299	\$ 11,421	\$ (1,245)	1,300
20-50% Below cost	1,070	(465)	267	5,567	(2,633)	823
>50% Below cost	91	(149)	73	1,470	(2,749)	427
Total fixed maturity securities	9,401	(1,186)	1,639	18,458	(6,627)	2,550
% Below cost equity securities:						
<20% Below cost	45	(4)				