

PRUDENTIAL FINANCIAL INC
Form 10-Q
August 05, 2011
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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 June 30, 2011

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 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

New Jersey
(State or Other Jurisdiction of

Incorporation or Organization)

22-3703799
(I.R.S. Employer

Identification Number)

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

(Address and Telephone Number of Registrant's Principal Executive Offices)

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 the 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.

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

As of July 31, 2011, 484 million shares of the registrant's Common Stock (par value \$0.01) were outstanding. In addition, 2 million shares of the registrant's Class B Stock, for which there is no established public trading market, were outstanding.

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Forward-Looking Statements

Certain of the statements included in this Quarterly Report on Form 10-Q, including but not limited to those in Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as expects, believes, anticipates, includes, plans, assumes, estimates, projects, should, will, shall or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets; (2) the availability and cost of additional debt or equity capital or external financing for our operations; (3) interest rate fluctuations or prolonged periods of low interest rates; (4) the degree to which we choose not to hedge risks, or the potential ineffectiveness or insufficiency of hedging or risk management strategies we do implement, with regard to variable annuity or other product guarantees; (5) any inability to access our credit facilities; (6) reestimates of our reserves for future policy benefits and claims; (7) differences between actual experience regarding mortality, morbidity, persistency, surrender experience, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (8) changes in our assumptions related to deferred policy acquisition costs, value of business acquired or goodwill; (9) changes in assumptions for retirement expense; (10) changes in our financial strength or credit ratings; (11) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX and Guideline AXXX; (12) investment losses, defaults and counterparty non-performance; (13) competition in our product lines and for personnel; (14) difficulties in marketing and distributing products through current or future distribution channels; (15) changes in tax law; (16) economic, political, currency and other risks relating to our international operations; (17) fluctuations in foreign currency exchange rates and foreign securities markets; (18) regulatory or legislative changes, including the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act; (19) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (20) adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including in connection with our divestiture or winding down of businesses; (21) domestic or international military actions, natural or man-made disasters including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life; (22) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (23) effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing the projected results of acquisitions, including risks associated with the acquisition of certain insurance operations in Japan; (24) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (25) changes in statutory or U.S. GAAP accounting principles, practices or policies; (26) Prudential Financial, Inc.'s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and the ability of the subsidiaries to pay such dividends or distributions in light of our ratings objectives and/or applicable regulatory restrictions; and (27) risks due to the lack of legal separation between our Financial Services Businesses and our Closed Block Business. Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See Risk Factors included in the Annual Report on Form 10-K for the year ended December 31, 2010 for discussion of certain risks relating to our businesses and investment in our securities.

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Throughout this Quarterly Report on Form 10-Q, Prudential Financial and the Registrant refer to Prudential Financial, Inc., the ultimate holding company for all of our companies. Prudential Insurance refers to The Prudential Insurance Company of America, before and after its demutualization on December 18, 2001. Prudential, the Company, we and our refer to our consolidated operations before and after demutualization.

PART I - FINANCIAL INFORMATION**ITEM 1. Financial Statements****PRUDENTIAL FINANCIAL, INC.****Unaudited Interim Consolidated Statements of Financial Position**

June 30, 2011 and December 31, 2010 (in millions, except share amounts)

	June 30, 2011	December 31, 2010
ASSETS		
Fixed maturities, available for sale, at fair value (amortized cost: 2011 \$229,152; 2010 \$187,754)(1)	\$ 238,087	\$ 194,983
Fixed maturities, held to maturity, at amortized cost (fair value: 2011 \$5,342; 2010 \$5,477)(1)	5,091	5,226
Trading account assets supporting insurance liabilities, at fair value(1)	18,563	17,771
Other trading account assets, at fair value	3,779	4,225
Equity securities, available for sale, at fair value (cost: 2011 \$8,410; 2010 \$6,469)	9,671	7,741
Commercial mortgage and other loans (includes \$266 and \$364 measured at fair value under the fair value option at June 30, 2011 and December 31, 2010, respectively)(1)	33,528	31,831
Policy loans	11,372	10,667
Other long-term investments (includes \$261 and \$258 measured at fair value under the fair value option at June 30, 2011 and December 31, 2010, respectively)(1)	7,819	6,171
Short-term investments(1)	7,599	5,297
Total investments	335,509	283,912
Cash and cash equivalents(1)	13,909	12,915
Accrued investment income(1)	2,737	2,377
Deferred policy acquisition costs	17,289	16,435
Other assets(1)	21,041	16,439
Separate account assets(1)	222,892	207,776
TOTAL ASSETS	\$ 613,377	\$ 539,854
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	\$ 160,241	\$ 133,874
Policyholders' account balances	130,999	106,441
Policyholders' dividends	4,043	3,378
Securities sold under agreements to repurchase	6,379	5,885
Cash collateral for loaned securities	3,169	2,171
Income taxes	6,542	6,353
Short-term debt	2,152	1,982
Long-term debt	24,578	23,653

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Other liabilities(1)	16,746	15,413
Separate account liabilities(1)	222,892	207,776
Total liabilities	577,741	506,926
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)		
EQUITY		
Preferred Stock (\$.01 par value; 10,000,000 shares authorized; none issued)	0	0
Common Stock (\$.01 par value; 1,500,000,000 shares authorized; 660,110,831 and 660,110,810 shares issued at June 30, 2011 and December 31, 2010, respectively)	6	6
Class B Stock (\$.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively)	0	0
Additional paid-in capital	24,239	24,223
Common Stock held in treasury, at cost (173,990,560 and 176,312,047 shares at June 30, 2011 and December 31, 2010, respectively)	(11,027)	(11,173)
Accumulated other comprehensive income (loss)	4,014	2,978
Retained earnings	17,811	16,381
Total Prudential Financial, Inc. equity	35,043	32,415
Noncontrolling interests	593	513
Total equity	35,636	32,928
TOTAL LIABILITIES AND EQUITY	\$ 613,377	\$ 539,854

(1) See Note 5 for details of balances associated with variable interest entities.

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents**PRUDENTIAL FINANCIAL, INC.****Unaudited Interim Consolidated Statements of Operations****Three and Six Months Ended June 30, 2011 and 2010 (in millions, except per share amounts)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
REVENUES				
Premiums	\$ 6,279	\$ 4,604	\$ 11,800	\$ 8,846
Policy charges and fee income	1,005	859	1,953	1,675
Net investment income	3,327	2,912	6,445	5,784
Asset management fees and other income	1,168	826	1,817	1,754
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(629)	(514)	(1,204)	(1,763)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	476	375	947	1,370
Other realized investment gains (losses), net	621	1,925	675	2,568
Total realized investment gains (losses), net	468	1,786	418	2,175
Total revenues	12,247	10,987	22,433	20,234
BENEFITS AND EXPENSES				
Policyholders' benefits	6,035	4,887	11,468	9,130
Interest credited to policyholders' account balances	1,191	1,231	2,014	2,466
Dividends to policyholders	734	518	1,282	1,035
Amortization of deferred policy acquisition costs	643	992	1,102	1,418
General and administrative expenses	2,472	1,853	4,691	3,670
Total benefits and expenses	11,075	9,481	20,557	17,719
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,172	1,506	1,876	2,515
Income tax expense	332	426	522	777
INCOME FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	840	1,080	1,354	1,738
Equity in earnings of operating joint ventures, net of taxes	11	9	116	19
INCOME FROM CONTINUING OPERATIONS	851	1,089	1,470	1,757
Income from discontinued operations, net of taxes	16	15	30	18
NET INCOME	867	1,104	1,500	1,775
Less: Income attributable to noncontrolling interests	29	27	54	1
NET INCOME ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC	\$ 838	\$ 1,077	\$ 1,446	\$ 1,774
EARNINGS PER SHARE (See Note 8)				
Financial Services Businesses				
Basic:	\$ 1.67	\$ 1.69	\$ 2.86	\$ 2.84

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Income from continuing operations attributable to Prudential Financial, Inc. per share of
Common Stock

Income from discontinued operations, net of taxes	0.03	0.03	0.06	0.04
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Net income attributable to Prudential Financial, Inc. per share of Common Stock	\$ 1.70	\$ 1.72	\$ 2.92	\$ 2.88
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Diluted:

Income from continuing operations attributable to Prudential Financial, Inc. per share of
Common Stock

Income from discontinued operations, net of taxes	\$ 1.65	\$ 1.66	\$ 2.83	\$ 2.81
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Income from discontinued operations, net of taxes	0.03	0.04	0.06	0.04
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Net income attributable to Prudential Financial, Inc. per share of Common Stock	\$ 1.68	\$ 1.70	\$ 2.89	\$ 2.85
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Closed Block Business

Basic and Diluted:

Income (loss) from continuing operations attributable to Prudential Financial, Inc. per share of
Class B Stock

Income from discontinued operations, net of taxes	\$ (0.50)	\$ 134.50	\$ 4.50	\$ 210.00
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Income from discontinued operations, net of taxes	0.00	0.00	0.00	0.00
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Net income (loss) attributable to Prudential Financial, Inc. per share of Class B Stock	\$ (0.50)	\$ 134.50	\$ 4.50	\$ 210.00
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See Notes to Unaudited Interim Consolidated Financial Statements

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	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance December 31, 2010	\$ 6	\$ 24,223	\$ 16,381	\$ (11,173)	\$ 2,978	\$ 32,415	\$ 513	\$ 32,928
Contributions from noncontrolling interests							8	8
Distributions to noncontrolling interests							(5)	(5)
Consolidations/deconsolidations of noncontrolling interests		0				0	0	0
Stock-based compensation programs		16	(16)	146		146		146
Comprehensive income:								
Net income			1,446			1,446	54	1,500
Other comprehensive income, net of tax					1,036	1,036	23	1,059
Total comprehensive income						2,482	77	2,559
Balance, June 30, 2011	\$ 6	\$ 24,239	\$ 17,811	\$ (11,027)	\$ 4,014	\$ 35,043	\$ 593	\$ 35,636

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2009	\$ 6	\$ 23,235	\$ 13,787	\$ (11,390)	\$ (443)	\$ 25,195	\$ 534	\$ 25,729
Contributions from noncontrolling interests						0	6	6
Distributions to noncontrolling interests						0	(18)	(18)
Consolidations/deconsolidations of noncontrolling interests		(2)				(2)	(1)	(3)
Stock-based compensation programs		(34)	(6)	154		114		114
Comprehensive income:								
Net income			1,774			1,774	1	1,775
Other comprehensive income, net of tax					2,643	2,643	23	2,666
Total comprehensive income						4,417	24	4,441
Balance, June 30, 2010	\$ 6	\$ 23,199	\$ 15,555	\$ (11,236)	\$ 2,200	\$ 29,724	\$ 545	\$ 30,269

(1) Class B Stock is not presented as the amounts are immaterial.

See Notes to Unaudited Interim Consolidated Financial Statements

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	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,500	\$ 1,775
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	(418)	(2,175)
Policy charges and fee income	(625)	(553)
Interest credited to policyholders' account balances	2,014	2,466
Depreciation and amortization	167	(39)
Gains on trading account assets supporting insurance liabilities, net	(157)	(332)
Change in:		
Deferred policy acquisition costs	(792)	(44)
Future policy benefits and other insurance liabilities	3,119	2,179
Other trading account assets	290	(490)
Income taxes	190	(1,273)
Other, net	(114)	1,037
Cash flows from operating activities	5,174	2,551
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available for sale	20,062	14,051
Fixed maturities, held to maturity	267	224
Trading account assets supporting insurance liabilities and other trading account assets	9,913	27,156
Equity securities, available for sale	1,614	1,436
Commercial mortgage and other loans	1,900	1,631
Policy loans	981	826
Other long-term investments	634	246
Short-term investments	9,046	11,276
Payments for the purchase/origination of:		
Fixed maturities, available for sale	(23,088)	(18,726)
Fixed maturities, held to maturity	(38)	(81)
Trading account assets supporting insurance liabilities and other trading account assets	(10,345)	(27,196)
Equity securities, available for sale	(1,278)	(1,345)
Commercial mortgage and other loans	(2,708)	(1,673)
Policy loans	(852)	(757)
Other long-term investments	(539)	(451)
Short-term investments	(9,354)	(10,936)
Acquisition of Subsidiaries, net of cash acquired.	(2,321)	0
Other, net	(201)	361
Cash flows used in investing activities	(6,307)	(3,958)
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders' account deposits	11,552	11,554
Policyholders' account withdrawals	(11,422)	(11,885)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	1,491	(404)
Cash dividends paid on Common Stock	(49)	(40)
Net change in financing arrangements (maturities 90 days or less)	160	384
Common Stock reissued for exercise of stock options	69	60
Proceeds from the issuance of debt (maturities longer than 90 days)	1,036	2,438
Repayments of debt (maturities longer than 90 days)	(565)	(2,455)
Excess tax benefits from share-based payment arrangements	9	11

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Other, net	(233)	72
Cash flows from (used in) financing activities	2,048	(265)
Effect of foreign exchange rate changes on cash balances	79	