

PRUDENTIAL FINANCIAL INC
Form 10-Q
May 06, 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 March 31, 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 April 30, 2011, 486 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 of American International Group, Inc. 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.

PRUDENTIAL FINANCIAL, INC.**Unaudited Interim Consolidated Statements of Financial Position**

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

	March 31, 2011	December 31, 2010
ASSETS		
Fixed maturities, available for sale, at fair value (amortized cost: 2011 \$225,735; 2010 \$187,754)(1)	\$ 231,817	\$ 194,983
Fixed maturities, held to maturity, at amortized cost (fair value: 2011 \$5,283; 2010 \$5,477)(1)	5,102	5,226
Trading account assets supporting insurance liabilities, at fair value(1)	18,314	17,771
Other trading account assets, at fair value	3,758	4,225
Equity securities, available for sale, at fair value (cost: 2011 \$8,557; 2010 \$6,469)	10,110	7,741
Commercial mortgage and other loans (includes \$287 and \$364 measured at fair value under the fair value option at March 31, 2011 and December 31, 2010, respectively)(1)	32,960	31,831
Policy loans	11,272	10,667
Other long-term investments (includes \$264 and \$258 measured at fair value under the fair value option at March 31, 2011 and December 31, 2010, respectively)(1)	7,959	6,171
Short-term investments(1)	7,018	5,297
Total investments	328,310	283,912
Cash and cash equivalents(1)	10,995	12,915
Accrued investment income(1)	2,760	2,377
Deferred policy acquisition costs	16,973	16,435
Other assets(1)	21,588	16,439
Separate account assets(1)	218,382	207,776
TOTAL ASSETS	\$ 599,008	\$ 539,854
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	\$ 153,888	\$ 133,874
Policyholders' account balances	133,031	106,441
Policyholders' dividends	3,594	3,378
Securities sold under agreements to repurchase	5,750	5,885
Cash collateral for loaned securities	2,297	2,171
Income taxes	5,602	6,353
Short-term debt	2,432	1,982
Long-term debt	24,033	23,653
Other liabilities(1)	16,753	15,413
Separate account liabilities(1)	218,382	207,776
Total liabilities	565,762	506,926
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)		
EQUITY		
Preferred Stock (\$.01 par value; 10,000,000 shares authorized; none issued)	0	0
	6	6

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Common Stock (\$.01 par value; 1,500,000,000 shares authorized; 660,110,831 and 660,110,810 shares issued at March 31, 2011 and December 31, 2010, respectively)		
Class B Stock (\$.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively)	0	0
Additional paid-in capital	24,210	24,223
Common Stock held in treasury, at cost (174,559,414 and 176,312,047 shares at March 31, 2011 and December 31, 2010, respectively)	(11,062)	(11,173)
Accumulated other comprehensive income (loss)	2,564	2,978
Retained earnings	16,978	16,381
Total Prudential Financial, Inc. equity	32,696	32,415
Noncontrolling interests	550	513
Total equity	33,246	32,928
TOTAL LIABILITIES AND EQUITY	\$ 599,008	\$ 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 Months Ended March 31, 2011 and 2010 (in millions, except per share amounts)**

	Three Months Ended March 31,	
	2011	2010
REVENUES		
Premiums	\$ 5,521	\$ 4,242
Policy charges and fee income	948	816
Net investment income	3,118	2,872
Asset management fees and other income	649	928
Realized investment gains (losses), net:		
Other-than-temporary impairments on fixed maturity securities	(575)	(1,249)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	471	995
Other realized investment gains (losses), net	54	643
Total realized investment gains (losses), net	(50)	389
Total revenues	10,186	9,247
BENEFITS AND EXPENSES		
Policyholders' benefits	5,433	4,243
Interest credited to policyholders' account balances	823	1,235
Dividends to policyholders	548	517
Amortization of deferred policy acquisition costs	459	426
General and administrative expenses	2,219	1,817
Total benefits and expenses	9,482	8,238
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES		
	704	1,009
Income tax expense	190	351
INCOME FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES		
	514	658
Equity in earnings of operating joint ventures, net of taxes	105	10
INCOME FROM CONTINUING OPERATIONS		
	619	668
Income from discontinued operations, net of taxes	14	3
NET INCOME		
	633	671
Less: Income (loss) attributable to noncontrolling interests	25	(26)
NET INCOME ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC		
	\$ 608	\$ 697
EARNINGS PER SHARE (See Note 8)		
Financial Services Businesses		
Basic:		
Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock	\$ 1.19	\$ 1.16
Income from discontinued operations, net of taxes	0.03	0.00

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Net income attributable to Prudential Financial, Inc. per share of Common Stock	\$ 1.22	\$ 1.16
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Diluted:

Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock	\$ 1.17	\$ 1.15
Income from discontinued operations, net of taxes	0.03	0.00

Net income attributable to Prudential Financial, Inc. per share of Common Stock	\$ 1.20	\$ 1.15
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Closed Block Business

Basic and Diluted:

Income from continuing operations attributable to Prudential Financial, Inc. per share of Class B Stock	\$ 5.00	\$ 75.50
Income from discontinued operations, net of taxes	0.00	0.00

Net income attributable to Prudential Financial, Inc. per share of Class B Stock	\$ 5.00	\$ 75.50
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See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Equity(1)

Three Months Ended March 31, 2011 and 2010 (in millions)

	Prudential Financial, Inc. Equity							Noncontrolling Interests	Total Equity
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity			
Balance December 31, 2010	\$ 6	\$ 24,223	\$ 16,381	\$ (11,173)	\$ 2,978	\$ 32,415	\$		