

PRUDENTIAL FINANCIAL INC
Form 10-Q
August 06, 2010
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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, 2010

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, 2010, 465 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 external financing for our operations, which has been affected by the stress experienced by the global financial markets; (3) interest rate fluctuations; (4) reestimates of our reserves for future policy benefits and claims; (5) 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; (6) changes in our assumptions related to deferred policy acquisition costs, valuation of business acquired or goodwill; (7) changes in our claims-paying or credit ratings; (8) investment losses, defaults and counterparty non-performance; (9) competition in our product lines and for personnel; (10) changes in tax law; (11) economic, political, currency and other risks relating to our international operations; (12) fluctuations in foreign currency exchange rates and foreign securities markets; (13) regulatory or legislative changes, including the recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act; (14) adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including in connection with our divestiture or winding down of businesses; (15) 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; (16) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (17) effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing the projected results of acquisitions; (18) changes in statutory or U.S. GAAP accounting principles, practices or policies; (19) changes in assumptions for retirement expense; (20) 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 (21) risks due to the lack of legal separation between our Financial Services Businesses and our Closed Block Business. The foregoing risks are even more pronounced in severe adverse market and economic conditions such as those that began in the second half of 2007 and continued into 2009. 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, 2009 and in this Quarterly Report on Form 10-Q 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, 2010 and December 31, 2009 (in millions, except share amounts)

	June 30, 2010	December 31, 2009
ASSETS		
Fixed maturities, available for sale, at fair value (amortized cost: 2010 \$177,802; 2009 \$174,251)(1)	\$ 185,293	\$ 175,225
Fixed maturities, held to maturity, at amortized cost (fair value: 2010 \$5,209; 2009 \$5,197)(1)	5,023	5,120
Trading account assets supporting insurance liabilities, at fair value(1)	16,733	16,020
Other trading account assets, at fair value	5,502	3,033
Equity securities, available for sale, at fair value (cost: 2010 \$6,119; 2009 \$6,106)	6,641	6,895
Commercial mortgage and other loans (includes \$576 and \$479 measured at fair value under the fair value option at June 30, 2010 and December 31, 2009, respectively)(1)	31,447	31,384
Policy loans	10,321	10,146
Other long-term investments (includes \$236 million and \$0 million measured at fair value under the fair value option at June 30, 2010 and December 31, 2009, respectively)(1)	6,150	5,904
Short-term investments	6,507	6,825
Total investments	273,617	260,552
Cash and cash equivalents(1)	11,352	13,164
Accrued investment income(1)	2,333	2,322
Deferred policy acquisition costs	14,213	14,578
Other assets(1)	15,213	15,513
Separate account assets(1)	179,260	174,074
Total Assets	\$ 495,988	\$ 480,203
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	\$ 128,647	\$ 125,707
Policyholders' account balances	102,588	101,666
Policyholders' dividends	2,629	1,254
Securities sold under agreements to repurchase	5,920	6,033
Cash collateral for loaned securities	2,532	3,163
Income taxes	5,311	4,014
Short-term debt	2,219	3,122
	22,399	21,037

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Long-term debt (includes \$0 and \$429 measured at fair value under the fair value option at June 30, 2010 and December 31, 2009, respectively)		
Other liabilities(1)	14,214	14,404
Separate account liabilities(1)	179,260	174,074
 Total liabilities	 465,719	 454,474
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; 641,762,144 and 641,762,089 shares issued at June 30, 2010 and December 31, 2009, respectively)	6	6
Class B Stock (\$.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively)	0	0
Additional paid-in capital	23,199	23,235
Common Stock held in treasury, at cost (177,300,265 and 179,650,931 shares at June 30, 2010 and December 31, 2009, respectively)	(11,236)	(11,390)
Accumulated other comprehensive income (loss)	2,200	(443)
Retained earnings	15,555	13,787
 Total Prudential Financial, Inc. equity	 29,724	 25,195
 Noncontrolling interests	 545	 534
 Total equity	 30,269	 25,729
TOTAL LIABILITIES AND EQUITY	\$ 495,988	\$ 480,203

(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, 2010 and 2009 (in millions, except per share amounts)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
REVENUES				
Premiums	\$ 4,604	\$ 4,187	\$ 8,846	\$ 8,221
Policy charges and fee income	859	713	1,675	1,439
Net investment income	2,914	2,831	5,788	5,680
Asset management fees and other income	891	1,419	1,862	2,197
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(514)	(1,244)	(1,763)	(3,099)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	375	745	1,370	1,995
Other realized investment gains (losses), net	1,925	(1,772)	2,568	(1,029)
Total realized investment gains (losses), net	1,786	(2,271)	2,175	(2,133)
Total revenues	11,054	6,879	20,346	15,404
BENEFITS AND EXPENSES				
Policyholders' benefits	4,887	3,886	9,130	8,227
Interest credited to policyholders' account balances	1,231	1,099	2,466	2,268
Dividends to policyholders	518	277	1,035	276
General and administrative expenses	2,890	1,627	5,171	4,640
Total benefits and expenses	9,526	6,889	17,802	15,411
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES				
	1,528	(10)	2,544	(7)
Income tax expense (benefit)	433	(163)	786	(165)
INCOME FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES				
	1,095	153	1,758	158
Equity in earnings of operating joint ventures, net of taxes	9	5	19	(1)
INCOME FROM CONTINUING OPERATIONS				
	1,104	158	1,777	157
Income (loss) from discontinued operations, net of taxes	0	22	(2)	26
NET INCOME				
	1,104	180	1,775	183
Less: Income attributable to noncontrolling interests	27	17	1	6
NET INCOME ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC	\$ 1,077	\$ 163	\$ 1,774	\$ 177
EARNINGS PER SHARE (See Note 8)				
Financial Services Businesses				
Basic:				
Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock	\$ 1.72	\$ 1.20	\$ 2.89	\$ 1.22
Income (loss) from discontinued operations, net of taxes	0.00	0.05	(0.01)	0.06

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Net income attributable to Prudential Financial, Inc. per share of Common Stock	\$ 1.72	\$ 1.25	\$ 2.88	\$ 1.28
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Diluted:

Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock	\$ 1.70	\$ 1.20	\$ 2.85	\$ 1.22
Income from discontinued operations, net of taxes	0.00	0.05	0.00	0.06

Net income attributable to Prudential Financial, Inc. per share of Common Stock	\$ 1.70	\$ 1.25	\$ 2.85	\$ 1.28
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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	\$ 134.50	\$ (193.00)	\$ 210.00	\$ (189.00)
Income from discontinued operations, net of taxes	0.00	0.00	0.00	0.00

Net income (loss) attributable to Prudential Financial, Inc. per share of Class B Stock	\$ 134.50	\$ (193.00)	\$ 210.00	\$ (189.00)
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See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents**PRUDENTIAL FINANCIAL, INC.****Unaudited Interim Consolidated Statements of Equity(1)****Six Months Ended June 30, 2010 and 2009 (in millions)**

	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							6	6
Distributions to noncontrolling interests							(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

	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, 2008	\$ 6	\$ 22,001	\$ 10,426	\$ (11,655)	\$ (7,343)	\$ 13,435	\$ 351	\$ 13,786
Common Stock issued		1,391				1,391		1,391
Contributions from noncontrolling interests							278	278
Distributions to noncontrolling interests							(8)	(8)
Stock-based compensation programs		(67)	(29)	161		65		65
Impact of adoption of guidance for other-than-temporary impairments of debt securities, net of taxes			664		(664)	0		0
Comprehensive income:								
Net income			177			177	6	183
Other comprehensive income (loss), net of tax					3,005	3,005	(25)	2,980
Total comprehensive income (loss)						3,182	(19)	3,163
Balance, June 30, 2009	\$ 6	\$ 23,325	\$ 11,238	\$ (11,494)	\$ (5,002)	\$ 18,073	\$ 602	\$ 18,675

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

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See Notes to Unaudited Interim Consolidated Financial Statements

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	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 1,775	\$ 183
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	(2,175)	2,133
Policy charges and fee income	(553)	(786)
Interest credited to policyholders' account balances	2,466	2,268
Depreciation and amortization	(39)	192
Gains on trading account assets supporting insurance liabilities, net	(332)	(840)
Change in:		
Deferred policy acquisition costs	(44)	(133)
Future policy benefits and other insurance liabilities	2,179	1,699
Other trading account assets	(490)	1,977
Income taxes	(1,273)	(152)
Other, net	1,037	(2,782)
Cash flows from operating activities	2,551	3,759
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available for sale	14,051	25,410
Fixed maturities, held to maturity	224	168
Trading account assets supporting insurance liabilities and other trading account assets	27,156	14,969
Equity securities, available for sale	1,436	840
Commercial mortgage and other loans	1,631	1,628
Policy loans	826	844
Other long-term investments	246	672
Short-term investments	11,276	12,887
Payments for the purchase/origination of:		
Fixed maturities, available for sale	(18,726)	(22,270)
Fixed maturities, held to maturity	(81)	(952)
Trading account assets supporting insurance liabilities and other trading account assets	(27,196)	(16,243)
Equity securities, available for sale	(1,345)	(326)
Commercial mortgage and other loans	(1,673)	(1,609)
Policy loans	(757)	(785)
Other long-term investments	(451)	(905)
Short-term investments	(10,936)	(14,295)
Other, net	361	158
Cash flows from (used in) investing activities	(3,958)	191
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders' account deposits	11,554	15,883
Policyholders' account withdrawals	(11,885)	(15,643)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	(404)	(974)
Proceeds from the issuance of Common Stock	0	1,391
Cash dividends paid on Common Stock	(40)	(37)
Net change in financing arrangements (maturities 90 days or less)	384	(3,386)
Common Stock reissued for exercise of stock options	60	22
Proceeds from the issuance of debt (maturities longer than 90 days)	2,438	2,868
Repayments of debt (maturities longer than 90 days)	(2,455)	(5,494)
Excess tax benefits from share-based payment arrangements	11	0

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Other, net	72	(64)
Cash flows used in financing activities	(265)	(5,434)
Effect of foreign exchange rate changes on cash balances	(140)	(53)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,812)	(1,537)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,164	15,028
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 11,352	\$ 13,491
NON-CASH TRANSACTIONS DURING THE PERIOD		
Treasury Stock shares issued for stock-based compensation programs	\$ 69	\$ 97