

PRUDENTIAL FINANCIAL INC

Form 10-Q

May 03, 2007

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2007

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

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**Prudential Financial, Inc.**

(Exact Name of Registrant as Specified in its Charter)

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New Jersey  
(State or Other Jurisdiction of

22-3703799  
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

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

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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, 2007, 463 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 stock, real estate and other financial markets; (2) interest rate fluctuations; (3) reestimates of our reserves for future policy benefits and claims; (4) 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; (5) changes in our assumptions related to deferred policy acquisition costs, valuation of business acquired or goodwill; (6) changes in our claims-paying or credit ratings; (7) investment losses and defaults; (8) competition in our product lines and for personnel; (9) changes in tax law; (10) economic, political, currency and other risks relating to our international operations; (11) fluctuations in foreign currency exchange rates and foreign securities markets; (12) regulatory or legislative changes; (13) adverse determinations in litigation or regulatory matters and our exposure to contingent liabilities, including in connection with our divestiture or winding down of businesses; (14) 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; (15) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (16) effects of acquisitions, divestitures and restructurings, including possible difficulties in integrating and realizing the projected results of acquisitions; (17) changes in statutory or U.S. GAAP accounting principles, practices or policies; (18) changes in assumptions for retirement expense; (19) Prudential Financial, Inc.'s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and continue share repurchases, and the applicable regulatory restrictions on the ability of the subsidiaries to pay such dividends or distributions; and (20) 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, 2006 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**

March 31, 2007 and December 31, 2006 (in millions, except share amounts)

	March 31, 2007	December 31, 2006
<b>ASSETS</b>		
Fixed maturities:		
Available for sale, at fair value (amortized cost: 2007 \$159,534; 2006 \$158,828)	\$ 163,605	\$ 162,816
Held to maturity, at amortized cost (fair value: 2007 \$3,407; 2006 \$3,441)	3,440	3,469
Trading account assets supporting insurance liabilities, at fair value	14,223	14,262
Other trading account assets, at fair value	2,119	2,209
Equity securities, available for sale, at fair value (cost: 2007 \$7,076; 2006 \$6,824)	8,454	8,103
Commercial loans	26,137	25,739
Policy loans	8,971	8,887
Securities purchased under agreements to resell	113	153
Other long-term investments	5,234	4,745
Short-term investments	4,964	5,034
Total investments	237,260	235,417
Cash and cash equivalents	6,808	8,589
Accrued investment income	2,196	2,142
Reinsurance recoverables	2,021	1,958
Deferred policy acquisition costs	11,059	10,863
Other assets	17,946	17,834
Separate account assets	181,618	177,463
<b>TOTAL ASSETS</b>	<b>\$ 458,908</b>	<b>\$ 454,266</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>LIABILITIES</b>		
Future policy benefits	\$ 107,234	\$ 106,951
Policyholders' account balances	80,690	80,652
Policyholders' dividends	4,032	3,982
Reinsurance payables	1,472	1,458
Securities sold under agreements to repurchase	9,798	11,481
Cash collateral for loaned securities	6,234	7,365
Income taxes	3,212	3,108
Securities sold but not yet purchased	307	277
Short-term debt	13,934	12,536

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Long-term debt	11,830	11,423
Other liabilities	15,011	14,678
Separate account liabilities	181,618	177,463
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Total liabilities	435,372	431,374
	<u>          </u>	<u>          </u>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 9)</b>		
<b>STOCKHOLDERS EQUITY</b>		
Preferred Stock (\$.01 par value; 10,000,000 shares authorized; none issued)		
Common Stock (\$.01 par value; 1,500,000,000 shares authorized; 604,900,637 and 604,900,423 shares issued as of March 31, 2007 and December 31, 2006, respectively)		
	6	6
Class B Stock (\$.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding as of March 31, 2007 and December 31, 2006, respectively)		
Additional paid-in capital	20,701	20,666
Common Stock held in treasury, at cost (139,303,681 and 133,795,373 shares as of March 31, 2007 and December 31, 2006, respectively)	(7,757)	(7,143)
Accumulated other comprehensive income	692	519
Retained earnings	9,894	8,844
	<u>          </u>	<u>          </u>
Total stockholders equity	23,536	22,892
	<u>          </u>	<u>          </u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 458,908</b>	<b>\$ 454,266</b>
	<u>          </u>	<u>          </u>

*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, 2007 and 2006 (in millions, except per share amounts)**

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>REVENUES</b>		
Premiums	\$ 3,559	\$ 3,452
Policy charges and fee income	785	664
Net investment income	2,991	2,747
Realized investment gains, net	420	175
Asset management fees and other income	1,066	812
<b>Total revenues</b>	<b>8,821</b>	<b>7,850</b>
<b>BENEFITS AND EXPENSES</b>		
Policyholders' benefits	3,685	3,479
Interest credited to policyholders' account balances	843	623
Dividends to policyholders	711	623
General and administrative expenses	2,153	2,158
<b>Total benefits and expenses</b>	<b>7,392</b>	<b>6,883</b>
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES</b>	<b>1,429</b>	<b>967</b>
Income tax expense	424	279
<b>INCOME FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES</b>	<b>1,005</b>	<b>688</b>
Equity in earnings of operating joint ventures, net of taxes	77	51
<b>INCOME FROM CONTINUING OPERATIONS</b>	<b>1,082</b>	<b>739</b>
Income (loss) from discontinued operations, net of taxes	38	(6)
<b>NET INCOME</b>	<b>\$ 1,120</b>	<b>\$ 733</b>
<b>EARNINGS PER SHARE (See Note 6)</b>		
<b>Financial Services Businesses</b>		
<b>Basic:</b>		
Income from continuing operations per share of Common Stock	\$ 2.14	\$ 1.42
Income (loss) from discontinued operations, net of taxes	0.08	(0.02)
<b>Net income per share of Common Stock</b>	<b>\$ 2.22</b>	<b>\$ 1.40</b>

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<b>Diluted:</b>		
Income from continuing operations per share of Common Stock	\$ 2.10	\$ 1.39
Income (loss) from discontinued operations, net of taxes	0.08	(0.01)
	<hr/>	<hr/>
Net income per share of Common Stock	\$ 2.18	\$ 1.38
	<hr/>	<hr/>
<b>Closed Block Business</b>		
<b>Basic and Diluted:</b>		
Income from continuing operations per share of Class B Stock	\$ 39.00	\$ 19.50
Income from discontinued operations, net of taxes	1.00	
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Net income per share of Class B Stock	\$ 40.00	\$ 19.50
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*See Notes to Unaudited Interim Consolidated Financial Statements*



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## PRUDENTIAL FINANCIAL, INC.

## Unaudited Interim Consolidated Statement of Stockholders Equity

Three Months Ended March 31, 2007 (in millions)

	Common Stock	Class B Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Common Stock Held In Treasury	Accumulated Other Comprehensive Income	Total Stockholders Equity
<b>Balance, December 31, 2006</b>	\$ 6	\$	\$ 20,666	\$ 8,844	\$ (7,143)	\$ 519	\$ 22,892
Common Stock acquired					(749)		(749)
Stock-based compensation programs			35	(27)	135		143
Cumulative effect of changes in accounting principles, net of taxes				(43)			(43)
Comprehensive income:							
Net income				1,120			1,120
Other comprehensive income, net of taxes						173	173
Total comprehensive income							1,293
<b>Balance, March 31, 2007</b>	\$ 6	\$	\$ 20,701	\$ 9,894	\$		