PRUDENTIAL FINANCIAL INC
Form 11-K
June 22, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

(MARK ONE)

x **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________ to ________

Commission file number 001-16707

Full title of the plan and the address of the plan, if different from

that of the issuer named below:

The Prudential Employee Savings Plan

Name of issuer of the securities held pursuant to the plan and the

address of its principal executive office:

Prudential Financial, Inc.

751 Broad Street

Newark, New Jersey 07102

Financial Statements and Exhibits

(a) Financial Statements for the Year Ended December 31, 2010, and Independent Registered Public Accounting Firm s Report.

(b) The financial statements required to be filed hereunder appear commencing at page 3 hereof.

(c) Exhibits

(1) Exhibit 23.1 Consent of Independent Registered Public Accounting Firm (following financial statements).

The Prudential Employee Savings Plan

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December 31, 2011 and 2010

* Other schedules required by 29 CFR 2520.103-10 of the Department of Labor s Rules and Regulations for Reporting and Disclosure under ERISA have been omitted because they are not applicable.

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THOMPSON, COBB, BAZILIO & ASSOCIATES, PC

Certified Public Accountants and Management, Systems and Financial Consultants

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Report of Independent Registered Public Accounting Firm

To the Participants and Administrator of

The Prudential Employee Savings Plan

We have audited the accompanying statements of net assets available for benefits (modified cash basis) of The Prudential Employee Savings Plan (the Plan) as of December 31, 2011 and 2010, and the related statement of changes in net assets available for benefits (modified cash basis) for the year ended December 31, 2011. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements and supplemental schedule were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2011 and 2010, and the changes in net assets available for benefits for the year ended December 31, 2011, on the basis of accounting described in Note 2.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental Schedule of Assets Held for Investment Purposes (modified cash basis) of the Plan as of December 31, 2011 is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Thompson, Cobb, Bazilio & Associates, PC

Washington, DC

June 15, 2012

MAIN OFFICE: Washington, DC **REGIONAL OFFICES:** Torrance, CA · Philadelphia, PA · Dallas, TX

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The Prudential Employee Savings Plan

Statement of Net Assets Available for Benefits

(Modified Cash Basis)

December 31, 2011 and 2010

	2011	2010
Assets		
Investments		
At Fair Value		
PESP Fixed Rate Fund (Note 3)	$ 3,419,068,150	$ 3,365,156,829
At Fair Value		
Insurance Company Pooled Separate Accounts		
Core Bond Enhanced Index/PIM Fund	90,928,410	37,639,504
Core Equity Account	200,630,800	232,025,992
Large Cap Value/LSV Asset Management Fund	148,193,583	169,322,255
Prudential Retirement Real Estate Fund	30,824,584	29,814,434
Small Company Stock Account	317,548,354	347,321,538
Registered Investment Companies		
Artisan Mid-Cap Value Fund	146,946,439	142,142,493
Fidelity Advisor Government Income Fund	23,410,826	21,105,357
GE Institutional International Equity Investment Fund	225,939,078	210,447,250
Prudential High-Yield Fund	47,077,984	41,425,975
Prudential Jennison Growth Fund	316,598,760	348,811,865
Prudential Jennison Mid-Cap Growth Fund	129,745,894	131,009,703
Prudential Stock Index Fund	209,179,042	217,009,830
Master Trust (Note 12)		
Prudential Financial, Inc. Common Stock Fund	89,123,166	84,197,823
Prudential Financial, Inc. Common Stock Fund - (ESOP) (Note 9)	359,928,667	411,992,758
Prudential IncomeFlex		
Aggressive Fund	49,876,267	44,502,823
Conservative Fund	12,124,847	11,520,804
Moderate Fund	23,465,336	21,200,029
Total investments at fair value	5,840,610,187	5,866,647,262
Notes receivable for participant loans	47,928,129	46,757,919
Other - noninterest-bearing cash	764	
Net assets available for benefits at fair value	5,888,539,080	5,913,405,181
Adjustment from fair value to contract value for fully benefit-responsive investment contract	(209,052,296)	(210,730,356)
Net assets available for benefits	$ 5,679,486,784	$ 5,702,674,825

The accompanying notes are an integral part of these financial statements.

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The Prudential Employee Savings Plan

Statement of Changes in Net Assets Available for Benefits

(Modified Cash Basis)

For the Year Ended December 31, 2011

Additions to net assets	
Investment income	
Net depreciation in fair value of investments	$ (101,661,658)
Interest and dividend income	160,006,104
Total investment gain	58,344,446
Investment expenses (Note 6)	
Net investment gain	58,344,446
Interest income on notes receivable from participants	1,672,730
Contributions	
Employer	54,063,468
Employee	152,028,427
Rollover	26,277,963
Total contributions	232,369,858
Total additions	292,387,034
Deductions from net assets	
Benefits paid to participants	315,566,225
Administrative expenses	8,850
Total deductions	315,575,075
Net decrease	(23,188,041)
Net assets available for benefits	
Beginning of year	5,702,674,825
End of year	$ 5,679,486,784

The accompanying notes are an integral part of these financial statements.

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The Prudential Employee Savings Plan

Notes to Financial Statements

December 31, 2011 and 2010

1. Description of the Plan

The following description of The Prudential Employee Savings Plan (the Plan or PESP) provides only general information. Participants should refer to the Plan documents for a more complete description of the Plan s provisions.

General

The Plan is a defined contribution plan generally covering all United States employees and statutory agents of The Prudential Insurance Company of America (the Company) and its participating affiliates. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

Participation

Each employee may enroll in PESP at any time, starting on their first day of employment with the Company.

Employees hired on or after January 1, 2001, who do not affirmatively elect either to participate or to decline participation in PESP within 30 days of hire, are enrolled automatically in PESP until they affirmatively elect otherwise.

Contributions

Employee Contributions. Participants can contribute from 1% to 50% of eligible earnings as defined in the Plan, in any combination of before-tax, Roth 401(k) (after-tax), and/or traditional after-tax contributions. Through automatic enrollment, participants contribute 4% of eligible earnings on a before-tax basis. Rollover contributions are allowed.

Participants may elect to increase, decrease or stop their contributions at any time, subject to the Company s Personal Securities Trading Policy.

Roth In-Plan Rollovers. The Plan was amended, effective December 1, 2010 to add a provision allowing Roth In-Plan Rollovers. Under this feature, a participant may elect to rollover all or a portion of his vested Plan account that is then available for distribution or in-service withdrawal into Roth (after-tax) funds. A participant is required to pay income taxes on the amount rolled over and, assuming the applicable holding period and distribution requirements are satisfied, the Roth In-Plan Rollover held in the Plan together with subsequent investment earnings will not be subject to Federal income taxes at the time of distribution. A participant is permitted to make up to four (4) separate Roth In-Plan Rollovers in a single plan year.

2011 Roth In-Plan Rollovers totaling $5,250,111 are included in Rollovers in the Statement of Changes in Net Assets Available for Benefits.

Company Matching Contributions. The Company matches 100% of before-tax and Roth 401(k) contributions up to a maximum of 4% of eligible earnings. Employees hired on or after January 1, 2004 are required to complete one year of service prior to becoming eligible for Company matching contributions.

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The Prudential Employee Savings Plan

Notes to Financial Statements

December 31, 2011 and 2010

1. Description of the Plan (Continued)

Catch-Up Contributions. Participants age 50 or older who will reach the 401(k) limit for contributions for the year or certain of the Plan s other limits for contributions, may be eligible to make before-tax and Roth 401(k) catch-up contributions to the Plan during the plan year from eligible earnings. Catch-up contributions are not eligible for Company matching contributions. For 2011, catch-up contributions are limited to $5,500.

Contributions are subject to certain limitations imposed by applicable provisions of the Plan and the Internal Revenue Code of 1986, as amended (IRC) including compliance with applicable statutory limits and non-discrimination rules.

Participant Accounts

Each participant s account is credited with the participant s contributions and allocations of (a) the Company s matching contributions, and (b) Plan net earnings. Allocations are made pursuant to the terms of the Plan based on the participant s eligible earnings and account balances. A participant is entitled to the benefit that can be provided from the participant s vested account.

Vesting

Participants are immediately vested in their before-tax, Roth 401(k), after-tax, and rollover contributions plus earnings thereon. Generally, participants become 100% vested in Company matching contributions upon the completion of three years of vesting service.

Vesting will be accelerated and participants will be 100% vested in the Company s matching contribution and earnings thereon upon reaching age 65, or as a result of death, or becoming totally disabled while an employee. A participant will be considered totally disabled for purposes of the Plan if he or she is eligible to receive long-term disability benefits under The Prudential Welfare Benefits Plan.

Full vesting was provided to certain terminated participants pursuant to divestitures or discontinuances of business operations, in 2011 as the result of dispositions of the U.S. Global Commodities businesses, Prudential Real Estate and Relocation Services, Inc. and the mail and printing operations previously carried out in Millville, NJ.

Forfeitures

If a participant terminates employment with the Company prior to full vesting, the nonvested portion of his or her account attributable to the Company matching contributions and earnings thereon is forfeited. If the participant is reemployed within five years from the date of termination, the forfeited amount may be reinstated, subject to certain Plan provisions. During the five year period, as stated above, the pending forfeiture amounts are invested as part of the PESP Fixed Rate Fund. Any amounts not reinstated to a participant, after the five-year period are considered forfeitures that the Plan permits to be used to reduce future Company matching contributions, or to pay administrative expenses.

At December 31, 2011 and 2010, forfeiture amounts invested in the PESP Fixed Rate Fund amounted to $2,068,912 and $2,435,281, respectively. Forfeitures of $2,000,000 were used to reduce the Company s matching contributions in 2011.

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The Prudential Employee Savings Plan

Notes to Financial Statements

December 31, 2011 and 2010

1. Description of the Plan (Continued)
Investment Options

Employee Contributions. Participants may direct their current account balance and future contributions in 1% increments in any of the Plan s investment options.

Participants who are automatically enrolled and do not direct investment of their accounts will be invested by default into the age-appropriate conservative portfolio mix available under GoalMaker®, a computer asset allocation program available to participants as described below.

Generally, there are no restrictions on the participant s investment direction, except in regard to the Prudential Financial, Inc. Common Stock Fund, which is subject to the provisions of the Company s Personal Securities Trading Policy and the PESP Market Timing Policy, which applies to all investment options. In addition, participants who are employed with affiliated investment managers of certain funds may be restricted as to investment directions in connection with those funds.

Company Matching Contributions. Half of the Company matching contributions is automatically invested in the Prudential Financial, Inc. Common Stock Fund. The remainder of the participant s Company matching contributions is invested according to the participant s current investment allocation direction.

Generally, there are no restrictions on transferring Company matching contributions from the Prudential Financial, Inc. Common Stock Fund to any of the other investment options under the Plan, except for certain limitations including, but not limited to, the provisions of the Company s Personal Securities Trading Policy.

The following are the investment options under the Plan:

PESP Fixed Rate Fund The goal of the PESP Fixed Rate Fund is to provide preservation of principal and stable competitive interest rates based on current market conditions. The guaranteed rate of return was reset annually through 2008, with each year s rate declared in advance of the year to which the rate applied. Effective January 1, 2009 the guaranteed rate of return is reset quarterly. The PESP Fixed Rate Fund is offered under a group annuity contract issued by the Company.

Insurance Company Pooled Separate Accounts

Core Bond Enhanced Index/PIM Fund This separate account seeks to achieve performance results similar to the Barclays Capital U.S. Aggregate Bond Index and is invested to reflect many of the characteristics of the Barclays Capital U.S. Aggregate Bond Index. This portfolio invests primarily in corporate and government bonds. This separate account is offered under a group annuity contract issued by the Prudential Retirement Insurance and Annuity Company, an affiliate of the Company.

The Prudential Employee Savings Plan

Notes to Financial Statements

December 31, 2011 and 2010

1. Description of the Plan (Continued)

Core Equity Account, VCA-IF This separate account seeks to provide long-term growth, taking into account both income and capital appreciation, by investing primarily in the equities of major, well-established companies that appear to be in sound financial condition and have the potential for price appreciation greater than broadly based stock indices. The separate account is offered under a group annuity contract issued by the Company.

Large Cap Value / LSV Asset Management Fund This separate account seeks appreciation of capital and to outperform the Russell 1000 Value Index over rolling 3 and 5-year periods, or market cycles if longer. This portfolio invests primarily in equity-related securities of large companies that the manager believes to be undervalued. The separate account is offered under a group annuity contract issued by the Prudential Retirement Insurance and Annuity Company, an affiliate of the Company.

Prudential Retirement Real Estate Fund This separate account will invest primarily in existing private real estate funds, publicly traded real estate securities, including Real Estate Investment Trust (REIT) securities, and other real estate related investments. The Fund s objective is to meet or exceed a customized real estate and real estate securities benchmark return after fees and expenses. The separate account is offered under a group annuity contract issued by the Prudential Retirement Insurance and Annuity Company, an affiliate of the Company.

Small Company Stock Account, VCA-6 This separate account seeks long-term growth of capital, taking into account income and capital appreciation. The portfolio invests primarily in common stocks of small, less well-known U.S. companies. The separate account is offered under a group annuity contract issued by the Company.

Registered Investment Companies

Artisan Mid-Cap Value Fund, Class Z This mutual fund seeks to provide long-term growth of capital. The fund normally invests at least 80% of net assets in the common stocks of mid-capitalization companies that management believes to be undervalued relative to their intrinsic value, and are improving, or are likely to improve, their returns on invested capital. It defines a mid-cap company as one that falls within the market capitalization range of companies in the Russell Mid-Cap index.

Fidelity Advisor Government Income Fund, Class I This mutual fund seeks to provide a high level of current income by investing at least 80% of its assets in intermediate-term U.S. Government securities as well as repurchase agreements for these securities. This fund may also have allocations to agency issuers, including mortgage-backed securities.

GE Institutional International Equity Investment Fund This investment seeks long-term growth of capital. The fund invests at least 80% of assets in equity securities under normal market conditions. It invests primarily in companies in developed and developing countries outside the United States. The fund s assets are invested in foreign securities of companies representing at least three different countries.

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The Prudential Employee Savings Plan

Notes to Financial Statements

December 31, 2011 and 2010

1. Description of the Plan (Continued)

Prudential High-Yield Fund, Class Z The investment seeks to maximize current income, and capital appreciation is a secondary objective. The fund normally invests at least 80% of assets in a diversified portfolio of high-yield fixed-income securities.

Prudential Jennison Growth Fund, Class Z This mutual fund seeks long-term growth of capital. It invests at least 65% in equity securities issued by companies with market capitalization exceeding $1 billion and believed to have above-average growth prospects.

Prudential Jennison Mid-Cap Growth Fund, Class Q This mutual fund seeks long-term capital appreciation. It invests at least 80% in stocks of medium-sized U.S. companies with the potential for above-average growth. Prior to May 2, 2011, the Plan s interests in this fund were held as Class Z shares.

Prudential Stock Index Fund, Class I This mutual fund seeks to provide investment results that correspond to the price and yield performance of the Standard & Poor s 500 Composite Stock Price Index (S&P 500 Index).

Master Trust

Prudential Financial, Inc. Common Stock Fund This portfolio primarily invests in Prudential Financial, Inc. (PFI) common stock and a small portion is invested in money market shares or other liquid investments. The goal is to approximate the returns of a direct investment in shares of PFI common stock in a fund that also provides modest liquidity. This option has an ESOP and non-ESOP portion (Note 9).

Prudential IncomeFlex

The Prudential IncomeFlex option, available to Plan participants who have attained age 50, provides guaranteed withdrawals over the participant s lifetime based on continued investment in three customized IncomeFlex portfolios, structured as single client insurance company separate accounts, which hold investments in seven of the Plan s other investment options: the Core Equity Account, Small Company Stock Account, Large Cap Value/LSV Asset Management Fund, Core Bond Enhanced Index/PIM Fund, GE International Equity Fund, Prudential Jennison Growth Fund, and Prudential Jennison Mid Cap Growth Fund. Each portfolio has a specific asset class mix. Each IncomeFlex portfolio is rebalanced daily.

Aggressive Fund The asset class mix for this fund is 70% stock (39% large cap stocks, 8% mid cap stocks, 9% small cap stocks, and 14% international stocks) and 30% bonds.

Conservative Fund The asset class mix for this fund is 35% stock (18% large cap stocks, 5% mid cap stocks, 5% small cap stocks, and 7% international stocks) and 65% bonds.

Moderate Fund The asset class mix for this fund is 55% stock (31% large cap stocks, 6% mid cap stocks, 7% small cap stocks, and 11% international stocks) and 45% bonds.

The Prudential Employee Savings Plan

Notes to Financial Statements

December 31, 2011 and 2010

1. Description of the Plan (Continued)

The asset allocation by the Plan s investment options under Prudential IncomeFlex are shown in the following chart:

	Aggressive	Conservative	Moderate
Large Cap Stocks			
Core Equity Account	15%	7%	12%
Prudential Jennison Growth Fund	14%	6%	11%
Large Cap Value/LSV Management Fund	10%	5%	8%
Mid Cap Stocks			
Prudential Jennison Mid-Cap Growth Fund	8%	5%	6%
Small Cap Stocks			
Small Company Stock Amount	9%	5%	7%
International Stocks			
GE International Equity Investment Fund	14%	7%	11%
Bonds			
Core Bond Enhanced Index/PIM Fund	30%	65%	45%

GoalMaker®

GoalMaker® is a computer asset allocation program available to participants. It establishes 12 portfolios, each invested in a different asset allocation among a diversified mix of six existing investment options of the Plan (increasing to seven options effective May 2, 2011). Participants select a portfolio based on their completion of an investment risk profile and estimated time to retirement; defaulting participants are assigned to the conservative portfolio applicable to their current age, assuming retirement at age 65. GoalMaker® provides for automatic rebalancing of investments once per quarter.

Payment of Benefits

When employment with Prudential and its affiliates ends, if the value of a vested participant s account is in excess of $5,000, the participant may elect to (a) receive a lump sum distribution equal to the value of the participant s vested interest in his or her account, (b) receive an annuity from the Company in the amount that can be purchased with the vested value in his or her account, (c) receive a combination of a single payment for less than the total vested value of his or her account plus an annuity, (d) receive partial distributions (no more than five withdrawals per Plan year and the amount of any such withdrawal must equal at least $300) or (e) delay taking a distribution of the vested value of his or her account until it is required by law. If the value of a terminated vested participant s account is $5,000 or less, the participant may not defer distribution of his account.

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The Prudential Employee Savings Plan

Notes to Financial Statements

December 31, 2011 and 2010

1. Description of the Plan (Continued)

Actively employed participants can make in-service withdrawals from PESP. The amount available for in-service withdrawals includes amounts credited to a participant s After-Tax Contributions Account, Rollover Contributions Account, and pre-2001 Company Matching Contributions Account. Participants who have attained age 59 $^1/_2$ can also withdraw amounts from their Before-Tax Contributions Account, Roth 401(k) Contributions Account and Roth In-Plan Rollover Contributions Account. Participants can make up to five withdrawals each calendar year, and the withdrawals will be subject to a 10% federal early distribution tax for participants less than 59 $^1/_2$ years of age, in addition to the regular income tax that applies, except for After-Tax Contribution amounts. Other penalties may apply to Roth 401(k) and Roth In-Plan Rollover amounts if the withdrawals are not qualified distributions.

When funds are not available from an in-service withdrawal or when a loan will create a hardship, participants may apply for a hardship withdrawal without first taking a loan. To qualify for a hardship withdrawal under the Plan, participants must demonstrate that they need the money to meet an immediate and heavy financial need for which they have no other resources available to them.

Participant Loans

Participants may take loans from their Before-Tax Contributions Account and/or Rollover Contributions Accounts.

Loans may range from a minimum of $500 up to a maximum equal to the lesser of:

a) $50,000 reduced by the participant s highest outstanding loan balance during the preceding twelve months in the plan, or

b) 50% of their entire vested Plan account, or

c) 100% of the value of the sum of the balance, if any, of the participant s Before-Tax contribution account and rollover account.

The $50,000 maximum takes into account all loans to the participant from any plan maintained by the Company or an affiliate of the Company.

Only one loan is permitted to be outstanding at any time. The loan repayment period may range from one to five years. Currently, the interest rate applicable to the loan is the prime rate as of the fifteenth business day of March, June, September or December and is effective for loans initiated during the following quarter.

2. Summary of Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The modified cash basis of accounting is a cash receipts and disbursements method of accounting with investments stated at fair value.

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The Prudential Employee Savings Plan

Notes to Financial Statements

December 31, 2011 and 2010

2. Summary of Accounting Policies (Continued)
Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

Investment Valuation

The Plan s investments are stated at fair value (see Note 5 for more information on fair value measurements) except for its investment contract (the PESP Fixed Rate Fund), which is valued at contract value (Note 3).

The fair value of the shares owned by the Plan in registered investment companies is based on quoted net asset value of shares.

The fair value of the participation units owned by the Plan in insurance company pooled separate accounts is based on quoted redemption values.

The fair value of the participation units owned by the Plan in the master trust is based on quoted redemption values.

Purchases

Purchases of shares in registered investment companies are recorded on a trade-date basis.

Purchases of units of participation in insurance company pooled separate accounts and the master trust are recorded on a trade-date basis.

Income Recognition

The Plan presents in the statement of changes in net assets available for benefits the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains or losses and unrealized appreciation (depreciation) on those investments.

Sales of shares in registered investment companies are recorded on a trade-date basis.

Sales of units of participation in insurance company pooled separate accounts and the master trust are recorded on a trade-date basis.

Interest and dividend income is recorded when received.

Payment of Benefits

Benefits are recorded when paid.

Participant Loans

Participant loans are funded directly from the participant s account balance. Repayments of principal and interest related to the loan are credited to the participant s account on a pro-rata basis, based on their selected investment options. The carrying value is cost, which approximates fair value.

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The Prudential Employee Savings Plan

Notes to Financial Statements

December 31, 2011 and 2010

2. Summary of Accounting Policies (Continued)
Changes to Accounting Policies

In September 2010, the Financial Accounting Standards Board issued Accounting Standards Update 2010-25 (ASU 2010-25) *Reporting Loans to Participants by Defined Contribution Pension Plans*. ASU 2010-25 updates Accounting Standards Codification Topic 962 *Defined Contribution Pension Plans*. ASU 2010-25 requires defined contribution plans to report loans to employees as notes receivable rather than plan investments subject to fair value reporting. ASU 2010-25 is effective for plan years beginning after December 15, 2010. The Plan adopted ASU 2010-25 in fiscal year 2010, and accordingly, reclassified prior year employee loan balances from investments to receivables to be consistent with the current presentation. However, ERISA requires the Plan to report participant loans as plan investments; accordingly, these loans are included in Form 5500, Part IV, Schedule H, Line 4(i) Schedule of Assets (Held at End of Year) as well as Form 5500, Part I, Line c (8) Participant Loans.

3. Investment Contract with Insurance Company
The financial statement presentation and disclosure of the PESP Fixed Rate Fund (the Fund) complies with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 946-205 on the fair value reporting of fully benefit responsive contracts as of December 31, 2011 and 2010.

The Fund is a fully benefit responsive contract and is valued at fair value. Accordingly, the contract meets all of the following criteria:

a. The investment contract is effected directly between the Fund and the issuer and prohibits the Fund from assigning or selling the contract or its proceeds to another party without the consent of the issuer.

b. The contract issuer is obligated to (i) repay principal and interest, or (ii) prospective crediting rate adjustments with an assurance the crediting rate will not be less than zero.

c. The terms of the contract require all permitted participant-initiated transactions with the Fund to occur at contract value with no conditions, limits, or restrictions. Permitted participant-initiated transactions are those transactions allowed by the underlying defined-contribution plan, such as withdrawals for benefits, loans, or transfers to other funds within the Plan.

d. An event that limits the ability of the Fund to transact at contract value with the issuer (for example, premature termination of the contracts by the Fund, plant closings, layoffs, plan termination, bankruptcy, mergers, and early retirement incentives) and that also limits the ability of the Fund to transact at contract value with the participants in the Fund must be probable of not occurring.