

PFS INVESTMENTS INC.
(A Wholly Owned Subsidiary of Primerica Finance Corporation)

Statement of Financial Condition

December 31, 2018

(With Report of Independent Registered Public Accounting Firm Thereon)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

OMB APPROVAL	
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8-26486

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/18 AND ENDING 12/31/18
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: PFS Investments Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1 Primerica Pkwy

(No. and Street)

Duluth

GA

30099

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Sharon Grubenhoff

(470) 564-6201

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG LLP

(Name - if individual, state last, first, middle name)

303 Peachtree Street, N.E. Suite 2000 Atlanta

GA

30308

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:



Certified Public Accountant



Public Accountant



Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

OATH OR AFFIRMATION

I, Sharon Grubenhoff, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of PFS Investments Inc., as of December 31, 20 18, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



BRANDY SMALLWOOD
NOTARY PUBLIC
Walton County, Georgia
My Commission Expires 02/10/2023

Sharon Grubenhoff
Signature

CFO/Treasurer

Title

Brandy Smallwood
Notary Public

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

****For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**



KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

Report of Independent Registered Public Accounting Firm

To the Stockholder and the Board of Directors
PFS Investments Inc.:

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of PFS Investments Inc. (the Company) (a wholly owned subsidiary of Primerica Finance Corporation) as of December 31, 2018, and the related notes (collectively, the financial statement). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

The financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

KPMG LLP

We have served as the Company's auditor since 1981.

Atlanta, Georgia
February 28, 2019

PFS INVESTMENTS INC.
(A Wholly Owned Subsidiary of Primerica Finance Corporation)
Statement of Financial Condition
December 31, 2018

Assets	
Cash and cash equivalents	\$ 52,027,582
Securities owned, at fair value (cost \$13,597,211)	13,610,064
Accrued interest income	85,220
Due from mutual funds	14,494,832
Accounts receivable from representatives	1,186,527
Receivables from affiliates	5,615,389
Intangible asset, net of accumulated amortization of \$19,943,305	706,996
Property, equipment, and software, at cost, net of accumulated depreciation and amortization of \$926,305	1,040,792
Deferred tax assets, net	3,778,096
Other assets	1,070,187
Total assets	<u>\$ 93,615,685</u>
Liabilities and Stockholder's Equity	
Liabilities:	
Unpresented checks	\$ 596,624
Commissions payable to representatives	11,262,953
Payables to affiliates	7,345,730
Accounts payable and accrued expenses	4,089,633
Income taxes payable	6,892,883
Other liabilities	11,526,391
Commitments and contingent liabilities (<i>see Commitments and Contingent Liabilities note</i>)	
Total liabilities	<u>41,714,214</u>
Stockholder's equity:	
Common stock, \$0.10 par value. Authorized, 100,000 shares; issued and outstanding, 25,500 shares	2,550
Additional paid-in capital	35,890,173
Retained earnings	16,008,748
Total stockholder's equity	<u>51,901,471</u>
Total liabilities and stockholder's equity	<u>\$ 93,615,685</u>

See accompanying notes to financial statement.

PFS INVESTMENTS INC.
(A Wholly Owned Subsidiary of Primerica Finance Corporation)
Notes to Financial Statement
December 31, 2018

(1) Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies

Description of Business

PFS Investments Inc. (the “Company” or “we”) is a wholly owned subsidiary of Primerica Finance Corporation (“PFC”), which is a wholly owned subsidiary of Primerica, Inc. (the “Parent”). The Company is a registered broker-dealer under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and functions as an introducing broker-dealer under the rules of the Financial Industry Regulatory Authority (“FINRA”). Through approximately 18,500 independent licensed sales representatives (“registered representatives” or “agents”), we distribute and sell to our clients mutual funds and qualified tuition plans (“529 plans”) from five asset management firms. In these relationships, the Company receives dealer reallowances and 12b-1 trailer fees and, in turn, pays commissions to the agents.

The Company is a registered investment adviser in the United States and it offers a managed investments program, Primerica Advisors Lifetime Investment Platform (the “Lifetime Investment Platform”), which we launched in 2017. The Lifetime Investment Platform significantly expanded our client service capabilities and replaced the Freedom Portfolios product line, which we closed to new investments in 2018. The Lifetime Investment Platform is a robust advisory offering designed for clients who have at least \$25,000 of investable assets. It provides our customers access to mutual fund and exchange-traded fund investment models designed and managed by several unaffiliated investment advisers. The Company, as sponsor and portfolio manager of the program, evaluates models for inclusion in the program and conducts ongoing due diligence of the models and unaffiliated investment advisers made available through the program. TD Ameritrade Institutional, an unaffiliated broker-dealer, provides custody, trade execution, clearing, settlement and other services for customer assets invested through the Lifetime Investment Platform. The Company earns advisory fees based on a percentage of client assets in the Lifetime Investments Platform and, in turn, pays a portion of the advisory fees to the agents.

The Company has been approved by the Internal Revenue Service (“IRS”) under applicable tax code provisions to act as a nominee custodian solely for federal income tax purposes for certain funds. The Company receives annual custodial fees in this capacity.

The Company consists entirely of one operating segment that serves retail investors in the United States.

Basis of Presentation

We prepare our financial statement in accordance with U.S. generally accepted accounting principles (“GAAP”). These principles are established primarily by the Financial Accounting Standards Board (“FASB”). The preparation of financial statement in conformity with GAAP requires us to make estimates and assumptions that affect the reported financial statement balances, as well as the disclosure of contingent assets and liabilities during the reporting period. Actual results could differ from those estimates. Management considers available facts and knowledge of existing circumstances when establishing estimated amounts included in the financial statement. Current market conditions increase the risk and complexity of the judgments in these estimates. The most significant item that involves a greater degree of accounting estimates subject to change in the future is the valuation of securities owned.

As a registered broker-dealer, the Company is subject to Exchange Act Rule 17a-5 promulgated by the Securities and Exchange Commission (“SEC”). From January 1 through January 30, 2018, the Company referred to guidance in the SEC’s FAQ No. 6 dated April 4, 2014, and Footnote 74 of the adopting release for the Exchange Act Rule 17a-5 amendments. This guidance provided for circumstances where a broker-dealer had not held customer securities or funds during the fiscal year, but does not fit into the exemptive provisions for Exchange Act Rule 17 C.F.R. § 240.15c3-3 listed under Item 24 of Part IIA of FOCUS Form X-17A-5, but should nonetheless file an Exemption Report. The Company claimed the exemption provisions even though, in certain instances, the Company did not promptly forward customer checks to third-party fund companies and variable annuity issuers. Beginning on January 31, 2018 the Company met the identified exemption provisions under 17 C.F.R. § 240.15c3-3 and updated its registration. In order to meet the exemption provisions the Company made process changes beginning on

PFS INVESTMENTS INC.
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Notes to Financial Statement
December 31, 2018

January 31, 2018 to promptly forward customer checks to third-party fund companies and variable annuity issuers. The Company claimed an exemption under 17 C.F.R. § 240.15c3-3(k)(1) for the period from January 31, 2018 through December 31, 2018.

Cash and Cash Equivalents

The Company considers all highly liquid securities purchased with a maturity of 90 days or less to be cash equivalents. Cash equivalents as of December 31, 2018 include money market funds totaling approximately \$35.1 million.

Securities Owned

Securities owned are classified as trading securities and consist of fixed-maturity debt securities, which are carried at fair value. Changes in fair value of trading securities are included in net investment income in the period in which the change occurs. Purchases and sales of securities owned are recorded on a trade-date basis.

Due from Mutual Funds

Due from mutual funds represents commission fees receivable from various fund companies based on the sales of mutual funds and 529 plans made by the Company's registered representatives as well as 12b-1 fees receivable based on client asset values.

Accounts Receivable from Representatives

Accounts receivable from representatives represent amounts due from agents for licensing fees and commission chargebacks. Losses from such receivables are indemnified by other agents.

Intangible Asset

Effective July 1995, the Company terminated its agreement with Management Financial Services, Inc., owned by a former Company officer, by paying a lump-sum of approximately \$20.7 million. Prior to July 1995, the Company was obligated to pay an amount equal to 5.25% of commissions received by the Company to Management Financial Services, Inc. Provisions of the buyout provide for a noncompete agreement to continue through October 2019. The amortization of this intangible asset is calculated on a straight-line basis over 24 years and 4 months, which represents the life of the associated noncompete agreement. No events have occurred during 2018, and no factors exist as of December 31, 2018 that would indicate that the net carrying value of this asset may not be recoverable or will not be used throughout its estimated useful life.

Income Taxes

The Company accounts for income taxes using a benefit-for-loss approach to the allocation of current taxes, whereby tax benefits resulting from operating losses or other tax attributes, which will be realized by other members of the consolidated group, go to the benefit of the Company. Using this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Commissions Payable to Representatives

Commissions payable represents amounts due to agents for their sales of mutual funds and 529 plans as well as a portion of the 12b-1 and advisory fees earned by the Company.

PFS INVESTMENTS INC.
(A Wholly Owned Subsidiary of Primerica Finance Corporation)
Notes to Financial Statement
December 31, 2018

Fair Value of Financial Instruments

The carrying amounts for cash and cash equivalents, due from mutual funds, accounts receivable from representatives, affiliate receivables and payables, accrued interest income, commissions payable to representatives, unpresented checks, and accounts payable and accrued expenses approximate their fair values due to the short-term nature of these instruments. Securities owned represent investments in fixed-maturity debt securities, which are carried at fair value.

Share-based Compensation

The Company provides share-based compensation to certain of its employees and agents under the Parent's Omnibus Incentive Plan ("OIP"). The OIP provides for the issuance of Parent equity awards, including stock options, stock appreciation rights, restricted stock, deferred stock, restricted stock units ("RSUs"), performance-based stock units ("PSUs"), unrestricted stock, as well as cash-based awards. Parent equity awards granted to the Company's employees consist of RSUs with the per-unit value determined using the fair market value of the Parent's common stock on the date of the grant.

The Company provides grants of the Parent's RSUs to agents ("agent equity awards") as a part of quarterly contests for sales of investment and savings products for which the grant and the service period occur within the same calendar quarter.

Agent equity awards vest and are measured using the fair market value at the conclusion of the quarterly contest; which is the time that performance is complete.

The Company also issues Parent equity awards on behalf of an affiliate and is reimbursed by the affiliate in cash. During 2018, the Company issued Parent equity awards in the amount of approximately \$470,000 on behalf of the affiliate. As of December 31, 2018, the affiliate owed the Company approximately \$166,000 for Parent equity awards issued on its behalf, which is included in payables to affiliates, presented net of receivables from that affiliate, in the accompanying statement of financial condition.

The Company owes the Parent approximately \$471,000 as of December 31, 2018 for allocated share-based compensation, which is included in payables to affiliates in the accompanying statement of financial condition.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standard Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASC 606"). ASC 606 clarifies the principles for recognizing revenue by establishing the core principle that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASC 606 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue that is recognized. We adopted the amendments in ASC 606 as of January 1, 2018 using the modified retrospective method with no cumulative effect adjustment recognized. We have evaluated the customer contracts in our business and no changes were made to our revenue recognition as a result of adopting ASC 606.

Recently-issued accounting guidance, including future application of accounting standards, not discussed here are not applicable, are immaterial to our financial statement, or did not or are not expected to have a material impact on our business.

PFS INVESTMENTS INC.
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Notes to Financial Statement
December 31, 2018

(2) Securities Owned

Securities owned, at fair value, as of December 31, 2018 were as follows:

	Fair value	Carrying amount
Corporate fixed-maturity securities	\$ 13,610,064	\$ 13,610,064

Fair value is the price that would be received upon the sale of an asset in an orderly transaction between market participants at the measurement date. Invested assets recorded at fair value are measured and classified in accordance with a three-tier fair value hierarchy based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our view of market assumptions in the absence of observable market information. We classify and disclose all invested assets carried at fair value in one of the following three levels:

- (1) Level 1 – Quoted prices for identical instruments in active markets. Level 1 consists of financial instruments whose value is based on quoted market prices in active markets, such as exchange-traded common stocks and actively traded mutual fund investments;
- (2) Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs are observable in active markets. Level 2 includes those financial instruments that are valued using industry-standard pricing methodologies, models, or other valuation methodologies. Various inputs are considered in deriving the fair value of the underlying financial instrument, including interest rate and yield curves, and credit spread. All significant inputs are observable, derived from observable information in the marketplace, are supported by observable levels at which transactions are executed in the marketplace.
- (3) Level 3 – Valuations derived from valuation techniques in which one or more significant inputs are unobservable. Level 3 consists of financial instruments whose fair value is estimated based on industry-standard pricing methodologies and models using significant inputs not based on, nor corroborated by, readily available market information. Valuations for this category primarily consist of non-binding broker quotes.

As of the reporting period, all assets and liabilities recorded at fair value are classified in their entirety based on the lowest level of input (Level 3 being the lowest in the hierarchy) that is significant to the fair value measurement. Significant levels of estimation and judgment are required to determine the fair value of certain of our investments. The factors influencing these estimations and judgments are subject to change in subsequent reporting periods.

In estimating fair value of our investments, we use a third-party pricing service. We perform internal reasonableness assessments on fair value determinations within our portfolio throughout the year and as of year-end, including pricing variance analyses and comparisons to alternative pricing sources and benchmark returns. If a fair value appears unusual relative to these assessments, we will reexamine the inputs and may challenge a fair value assessment made by the pricing service. If there is a known pricing error, we will request a reassessment by the pricing service. If the pricing service is unable to perform the reassessment on a timely basis, we will determine the appropriate price by requesting a reassessment from an alternative pricing service or other qualified source as necessary. We do not adjust quotes or prices except in a rare circumstance to resolve a known error.

All of our securities owned as of December 31, 2018 were classified as Level 2. There were no transfers between Level 1 and Level 3 during the year ended December 31, 2018.

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Notes to Financial Statement
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(3) Income Taxes

Deferred tax assets and liabilities. The tax effects of temporary differences that give rise to the net deferred tax assets at December 31, 2018 are presented below:

	<u>December 31, 2018</u>
Deferred tax assets:	
State income taxes	\$ 1,516,923
Accrued expenses	1,365,167
Intangible assets	656,875
Share-based compensation	381,371
Other	8,202
Total deferred tax assets	<u>3,928,538</u>
Deferred tax liabilities:	
Intangible assets	(150,442)
Total deferred tax liabilities	(150,442)
Deferred tax assets, net	<u>\$ 3,778,096</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets. There was no deferred tax asset valuation allowance as of December 31, 2018.

Unrecognized tax benefits. The following is a rollforward of the Company's unrecognized tax benefits:

Balance, January 1, 2018	\$ 5,769,923
Increase (decrease) in unrecognized tax benefit – prior period	(30,473)
Increase (decrease) in unrecognized tax benefit – current period	1,495,276
Reductions in unrecognized tax benefits as a result of a lapse in statute of limitations	(799,261)
Balance, December 31, 2018	<u>\$ 6,435,465</u>

The total amount of unrecognized tax benefits as of December 31, 2018 that, if recognized, would affect the Company's effective tax rate was approximately \$5.7 million.

As of December 31, 2018, the total amounts of accrued interest and penalties in the Company's statement of financial condition were approximately \$788,000 and are included in income taxes payable in the accompanying statement of financial condition.

As the Company is included in the consolidated tax return of the Parent, income taxes owed as of year-end are payable to the Parent. As of December 31, 2018, federal income taxes of approximately \$2.1 million are payable to the Parent and are included in income taxes payable in the accompanying statement of financial condition.

The only event reasonably possible to occur within 12 months of the reporting date is the addition of the most recent year to the Company's tax contingency reserves and the release of the oldest year for which taxes are reserved. The projected net movement in the Company's tax contingency reserves resulting from this projected movement is not considered to be material to the Company.

The Company is currently open to audit by the IRS for the year ended December 31, 2015 and thereafter for federal income tax purposes.

PFS INVESTMENTS INC.
(A Wholly Owned Subsidiary of Primerica Finance Corporation)
Notes to Financial Statement
December 31, 2018

(4) Net Capital Requirement

The Company is subject to the SEC Net Capital Requirement for Brokers or Dealers, as mandated by Rule 17 C.F.R. § 240.15c3-1 of the Exchange Act. This regulation requires the maintenance of minimum “net capital” of the greater of \$5,000 or 6-2/3% of aggregate indebtedness. The regulation also requires that the ratio of aggregate indebtedness to net capital, as those terms are defined, not exceed 15-to-1. As of December 31, 2018, the Company had net capital of approximately \$28.2 million, which was approximately \$25.4 million in excess of its required net capital of approximately \$2.8 million. The Company’s aggregate indebtedness to net capital ratio was 1.48 to 1.

(5) Liabilities Subordinated to the Claims of General Creditors

As of December 31, 2018, the Company had no liabilities that were subordinated to the claims of general creditors.

(6) Related-Party Transactions

The Company receives support services from its affiliates, Primerica Life Insurance Company (“PLIC”) and Primerica Financial Services, LLC (“PFS”), for shared expenses including human resources, finance, information technology and other general and administrative expenses to support its operations. The Company also has an arrangement in which PLIC pays operating and payroll expenses on behalf of the Company. As of December 31, 2018, the Company recorded a liability of approximately \$5.3 million for the amount owed to PLIC for these arrangements, which is included in payables to affiliates in the accompanying statement of financial condition.

The Company has an arrangement in which it receives cash on behalf of PFS, a general agency and marketing company affiliate, for commission earned and pays all related expenses for sales of variable annuities, ultimately remitting the net amount to PFS. The Company also makes income tax installment payments on behalf of PFS. Additionally, the Company charges PFS a management fee for the shared expenses it incurs for providing marketing and operation support services on behalf of PFS. As of December 31, 2018, the Company recorded a payable of approximately \$1.6 million for the net amount owed to PFS under these arrangements, which is included in payable to affiliates in the accompanying statement of financial condition.

The Company also receives a management fee to offset the cost of shared general and administrative expenses incurred on behalf of its affiliate, Primerica Shareholder Services, Inc. (“PSS”). As of December 31, 2018, the Company recorded a receivable of \$5.6 million for net amounts due from PSS, which is included in receivables from affiliates in the accompanying statement of financial condition.

All of the arrangements between the Company and its affiliates provide a right of offset.

For information regarding share-based compensation transactions with affiliates, refer to Note 1 (Description of Business, Basis of Presentation, and Summary of Significant Accounting Policies).

(7) Commitments and Contingent Liabilities

The Company is involved from time to time in legal disputes, regulatory inquiries and arbitration proceedings in the normal course of business. These disputes are subject to uncertainties, including indeterminate amounts sought in certain of these matters and the inherent unpredictability of litigation. As such, the Company is unable to estimate the possible loss or range of loss that may result from these matters unless otherwise indicated.

(8) Risk and Uncertainties

Investment securities are exposed to several risks, including but not limited to interest rate and credit risks. Due to the risks associated with investment securities, it is at least reasonably possible that changes in the fair values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Company’s financial statement.

(9) Form X-17A-5 Part II

Pursuant to Rule 15c3-1, as adopted by FINRA, and as applied in conformity with generally accepted industry practices, the Company includes sales of variable annuity products in its computation of net capital. The inclusion of the sales in

PFS INVESTMENTS INC.
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December 31, 2018

Form X-17A-5 is consistent with the treatment afforded such sales in prior years. Additionally, the Company has relied upon SEC no-action letters concerning such treatment and continues to rely on such no-action letters unless and until instructed otherwise. These variable annuity sales are, however, recorded in the financial records of PFS and, therefore, are not included in the accompanying financial statement. The schedule below details the difference between net capital, as reported in Form X-17A-5 Part II, and the accompanying statement of financial condition.

	Form X-17A-5 Part II	Variable annuity adjustments	Accompanying financial statement
Total ownership equity (including adjustments)	\$ 844,664,864	\$ (792,763,393)	\$ 51,901,471
Nonallowable assets	(813,857,800)	793,234,600	(20,623,200)
Haircuts on securities	(3,064,542)	470	(3,064,072)
Net Capital	\$ <u>27,742,522</u>	\$ <u>471,677</u>	\$ <u>28,214,199</u>