



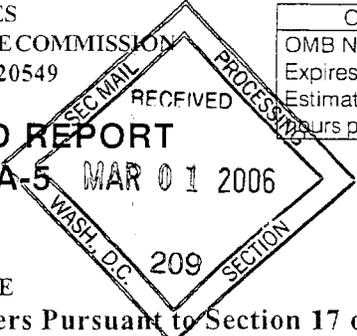
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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hours per response... 12.00

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3/20

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



SEC FILE NUMBER  
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 1/1/2005 AND ENDING 12/31/2005  
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.)

OFFICIAL USE ONLY  
010111  
FIRM I.D. NO.

3120 Breckinridge Blvd

(No. and Street)

Duluth, GA 30099

(City)

(State)

(Zip Code)

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

Jimmie Barnhill

770-564-6251

(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.

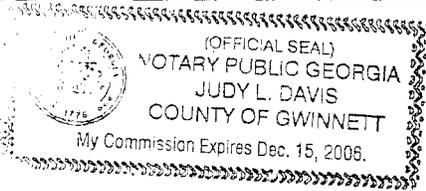
**PROCESSED**  
**MAY 25 2006**  
**THOMSON FINANCIAL**

**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, Jimmie Barnhill, 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, 2005, 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:



Jimmie Barnhill  
Signature  
Vice President  
Title

Judy L. Davis 2-27-06  
Notary Public

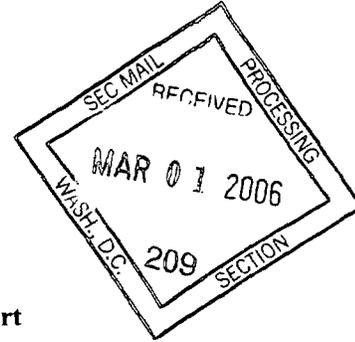
This report \*\* contains (check all applicable boxes):

- (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, NE  
Atlanta, GA 30308



## Independent Auditors' Report

The Board of Directors  
PFS Investments Inc.:

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, 2005 that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit of a statement of financial condition includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit of a statement of financial condition includes examining, on a test basis, evidence supporting the amounts and disclosures in that statement of financial condition. An audit of a statement of financial condition 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 audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of PFS Investments Inc. as of December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

**KPMG LLP**

Atlanta, Georgia  
February 24, 2006

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

Statement of Financial Condition

December 31, 2005

**Assets**

|   |                       |
|---|-----------------------|
| Cash and cash equivalents   | \$ 16,536,105         |
| Restricted cash   | 607,000               |
| Securities owned, at fair value (note 2)  | 53,242,425            |
| Accounts receivable from representatives  | 2,042,662             |
| Receivables from affiliates (note 6)  | 2,540,176             |
| Other receivables   | 4,039,008             |
| Contract buyout, less accumulated amortization of<br>\$9,034,506 (note 6)   | 11,615,795            |
| Accrued interest income   | 144,629               |
| Furniture, equipment, and leasehold improvements, at cost,<br>less accumulated depreciation and amortization of \$993,456 | 21,443                |
| Distribution costs receivable   | 45,239,671            |
| Other assets  | 1,305,770             |
| Total assets  | <u>\$ 137,334,684</u> |

**Liabilities and Stockholder's Equity**

|  |                       |
|--|-----------------------|
| Unpresented checks   | \$ 1,834,201          |
| Commissions payable to representatives   | 2,690,739             |
| Payables to affiliates (note 6)  | 3,810,101             |
| Income taxes payable to Parent   | 11,368,165            |
| Deferred income taxes (note 3)   | 15,956,411            |
| Accounts payable and accrued expenses  | 5,757,675             |
| Other liabilities  | 2,362,105             |
| Total liabilities  | <u>43,779,397</u>     |
| Stockholder's equity (note 4):   |                       |
| Common stock, \$0.10 par value. Authorized 100,000<br>shares; issued and outstanding 25,500 shares | 2,550                 |
| Additional paid-in capital   | 87,546,007            |
| Retained earnings  | 6,006,730             |
| Total stockholder's equity   | <u>93,555,287</u>     |
| Contingencies (note 7)   |                       |
| Total liabilities and stockholder's equity   | <u>\$ 137,334,684</u> |

See accompanying notes to statement of financial condition.

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

Notes to Statement of Financial Condition

December 31, 2005

**(1) Summary of Significant Accounting Policies**

**(a) General Information**

PFS Investments Inc. (the Company) is a wholly owned subsidiary of Primerica Finance Corporation, a wholly owned indirect subsidiary of Citigroup Inc. (the Parent). The Company is a registered broker-dealer in securities under the Securities Exchange Act of 1934 and is an introducing broker-dealer, under the laws governed by the National Association of Securities Dealers (NASD), for 36 mutual fund families with which it has selling agreements. Under these selling agreements, the Company receives dealer reallowances and 12b-1 trailer fees, and in turn, pays commissions on these fees to approximately 23,500 registered representatives. The Company has been approved by the Internal Revenue Service under applicable tax code provisions to act as a nominee custodian solely for Federal income tax purposes for certain funds managed by SBMF Management, Inc. (SBMF), Van Kampen, Pioneer Funds, and AIM. The Company receives annual custodial fees in this capacity.

At December 1, 2005, the Parent sold SBMF, its fund advisor, to Legg Mason, Inc. (LM Sale). As a result of the LM Sale, an agreement was made between the Company and Legg Mason Investor Services, LLC, an affiliate of SBMF. This agreement is for 30 months. Under this agreement, the Company receives underwriter concessions and 12b-1 distribution fees. The Company is responsible for certain marketing expenses for the funds managed by SBMF, including the printing of prospectuses and brochures for new shareholders. The Company does not expect to continue to receive underwriter concessions after June 1, 2008.

As of the close of business on November 30, 2005, PFS Distributors, Inc. (PFSD) was merged into the Company (PFSI Merger). This merger was accounted for under Statement of Financial Accounting Standards (SFAS) No. 141. Both entities were wholly owned subsidiaries of Primerica Finance Corporation at the time of the PFSI Merger. A condensed balance sheet of PFSD at November 30, 2005 is as follows:

|   |                       |
|---|-----------------------|
| Assets:                                       |                       |
| Cash and investments                          | \$ 70,267,412         |
| Distribution costs receivable                 | 45,735,226            |
| Other assets                                  | <u>1,999,426</u>      |
| Total assets                                  | <u>\$ 118,002,064</u> |
|   |                       |
| Total liabilities                             | \$ 23,438,698         |
| Stockholder's equity                          | <u>94,563,366</u>     |
|   |                       |
| Total liabilities and<br>stockholder's equity | <u>\$ 118,002,064</u> |

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

Notes to Statement of Financial Condition

December 31, 2005

**(b) *Securities Transactions***

Securities transactions are recorded on a trade date basis. Such securities primarily consist of bonds which are carried at fair value. The change in unrealized appreciation (depreciation) is included in investment income.

**(c) *Cash Equivalents***

The Company considers all highly liquid securities purchased with a maturity of 90 days or less to be cash equivalents. Cash equivalents at December 31, 2005 include commercial paper totaling \$15,642,729.

**(d) *Depreciation and Amortization***

Depreciation of furniture, equipment, and leasehold improvements is provided for over the estimated useful lives of the respective assets using the straight-line method. The cost of leasehold improvements is amortized on a straight-line basis over 60 months. Maintenance and repairs which do not significantly extend the useful life of the related asset are expensed as incurred.

**(e) *Income Taxes***

The Company accounts for income taxes using the asset and liability method prescribed by SFAS No. 109. Under the asset and liability method of SFAS No. 109, 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. Under SFAS No. 109, 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.

The Company's income or loss is included in the consolidated income tax returns of the Parent. The Parent allocates to the Company tax expense which is derived from inclusion of the Company's earnings in such consolidated income tax returns.

**(f) *Accounts Receivable from Representatives***

The Company advances commissions to individual agents on certain sales. Such advances are reduced as commissions are earned. Accounts receivable from representatives are amounts due from agents for these advances, as well as licensing and commission reversals. Losses from such receivables are indemnified by other agents.

**(g) *Distribution Costs Receivable***

Distribution costs receivable represent commissions paid to agents for sales of Class B mutual fund shares managed by SBMF. Distribution costs receivable are amortized over the same period as recovered. These costs are recovered over 96 months through various fees charged to the mutual fund shareholders. The Company periodically reviews this asset for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

**PFS INVESTMENTS INC.**  
(A Wholly Owned Subsidiary of Primerica Finance Corporation)  
Notes to Statement of Financial Condition  
December 31, 2005

**(h) Contract Buyout**

Effective July 1, 1995, a \$20,650,301 lump sum was paid to Management Financial Services, Inc. in connection with the termination of its agreement. The amortization of this contract buyout is calculated on a straight-line basis over 24 years, which represents the life of the noncompete agreement.

**(i) 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 disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

**(j) Fair Value of Financial Instruments**

SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties.

Cash and cash equivalents, accounts receivable, affiliate receivables, and accounts payable and accrued expenses are reflected in the statement of financial condition at historical cost, which management estimates to approximate fair value because of the short-term maturity of these instruments. Investments in bonds are carried at fair value.

**(2) Securities Owned**

Securities owned are summarized as follows:

|  |                      |
|--|----------------------|
|  | <u>Fair value</u>    |
| Bonds – U.S. treasuries, at fair value | \$ <u>53,242,425</u> |

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

Notes to Statement of Financial Condition

December 31, 2005

**(3) Income Taxes**

The tax effects of temporary differences that give rise to the net deferred tax liability at December 31, 2005 are presented below:

|                                       |                             |
|---------------------------------------|-----------------------------|
| Deferred tax assets:                  |                             |
| State income taxes                    | \$ 3,002,102                |
| Accrued expenses deductible when paid | 1,761,294                   |
| Other                                 | <u>674,075</u>              |
| Total deferred tax assets             | <u>5,437,471</u>            |
| Deferred tax liabilities:             |                             |
| Distribution costs receivable         | 16,759,814                  |
| Intangible assets                     | 4,448,849                   |
| Other                                 | <u>185,219</u>              |
| Total deferred tax liabilities        | <u>21,393,882</u>           |
| Net deferred tax liability            | \$ <u><u>15,956,411</u></u> |

There was no deferred tax asset valuation allowance at December 31, 2005. 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.

**(4) Net Capital Requirement**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1. This regulation requires the maintenance of minimum "net capital" of the greater of \$250,000 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. At December 31, 2005, the Company had net capital of \$26,056,820, which was \$23,150,107 in excess of its required net capital of \$2,906,713. The Company's aggregate indebtedness to net capital ratio was 1.67 to 1.

**(5) Liabilities Subordinated to the Claims of General Creditors**

At December 31, 2005, the Company had no liabilities that were subordinated to the claims of general creditors.

**(6) Related-Party Transactions**

Effective July 1, 1995, the Company terminated its agreement with Management Financial Services, Inc. (MFS) (formerly A. L. Williams & Associates, Inc.), owned by a former company officer, by paying a lump sum of \$20,650,301. Prior to July 1, 1995, the Company was obligated to pay an amount equal to 5.25% of commissions received by the Company. The lump-sum contract buyout is being amortized

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

Notes to Statement of Financial Condition

December 31, 2005

straight-line over a period of 24 years. Provisions of the buy-out provide for a noncompete agreement to continue through July 1, 2019.

The Company purchases computer services, electronic media resources, and printing services from affiliates to support its brokerage operations. The Company also incurs a management fee relating to certain shared general and administrative expenses allocated by an affiliate, Primerica Life Insurance Company (PLIC). The Company owes PLIC \$957,731 for these services and allocated expenses as of December 31, 2005. This amount is included in payables to affiliates in the accompanying statement of financial condition.

The Company has an arrangement in which payroll expenses are paid by PLIC and reimbursed by the Company. As of December 31, 2005, the Company has a payable of \$763,405 for payroll expenses. This amount is included in payables to affiliates in the accompanying statement of financial condition.

The Company purchases a portion of its fidelity bond coverage from affiliates. The current coverage is effective from April 28, 2005 through April 27, 2006.

The Company has an arrangement in which the Company receives cash on behalf of Primerica Financial Services, Inc., an affiliate, relating to commission income and pays all related expenses for the sales of variable annuities, thereby remitting the net to Primerica Financial Services, Inc. The Company owes Primerica Financial Services, Inc. \$1,880,054 at December 31, 2005. This amount is included in payables to affiliates in the accompanying statement of financial condition.

The Company has an arrangement in which the Company receives and disburses cash on behalf of Primerica Financial Services Home Mortgages, Inc. (HMI). The Company owes HMI \$74,775 at December 31, 2005. HMI owes the Company \$128,676 at December 31, 2005 for amounts disbursed by the Company on HMI's behalf. The net amount is included in receivables from affiliates in the accompanying statement of financial condition.

The Company has an arrangement in which Primerica Shareholder Services (PSS) disburses cash on behalf of the Company. The Company owes PSS \$341,812 at December 31, 2005. The Company receives a management fee relating to certain shared general and administrative expenses allocated to PSS. PSS owes the Company \$2,460,516 for these services and allocated expenses as of December 31, 2005. The net amount is included in receivables from affiliates in the accompanying statement of financial condition.

The Company owes an amount of \$208,910 in miscellaneous payables to affiliates as of December 31, 2005. This amount is included in payables to affiliates in the accompanying statement of financial condition. The Company has miscellaneous receivables of \$367,571 from affiliates as of December 31, 2005. This amount is included in receivables from affiliates in the accompanying statement of financial condition.

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

Notes to Statement of Financial Condition

December 31, 2005

**(7) Contingencies**

The Company is subject to various legal proceedings and claims which arise in the normal course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe the outcome of any of these legal matters will have a material adverse effect on the Company's financial position.

**(8) Change to NASD Membership Agreement**

To more efficiently serve its customers, the Company holds customer checks that are received with incomplete investment applications for longer than 24 hours while problems with the application are resolved. In order to do this, the Company had to change its NASD Membership Agreement to allow for this activity. This change was completed and effective on July 29, 2005. Pursuant to this change, the Company holds certain customer checks up to 72 hours and places an amount equal to 105% of the amount of the customers' checks held into a separate bank account for the exclusive benefit of customers. At December 31, 2005, the total amount of cash held in this separate account was \$607,000 and is included in restricted cash in the accompanying statement of financial condition.

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

Pursuant to SEC Rule 15c3-1, as adopted by the NASD, and as applied in conformity with generally accepted industry practices, the Company includes sales of variable annuity products in its computation of net capital. These variable annuity sales are, however, recorded in the financial records of Primerica Financial Services, Inc., an insurance agency licensed affiliate, and therefore, are not included in the accompanying statement of financial condition of the Company. 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. The inclusion of the sales in 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.

|  | <u>Form X-17A-5<br/>Part II</u> | <u>Variable<br/>annuity<br/>adjustments</u> | <u>Accompanying<br/>statement<br/>of financial<br/>condition</u> |
|--|---------------------------------|---|--|
| Total ownership equity (including adjustments) | \$ 333,704,287                  | (240,149,000)                               | 93,555,287   |
| Nonallowable assets                            | (305,624,032)                   | 238,674,878                                 | (66,949,154)   |
| Haircuts on securities                         | <u>(548,207)</u>                | <u>(1,106)</u>                              | <u>(549,313)</u>   |
| Net capital                                    | <u>\$ 27,532,048</u>            | <u>(1,475,228)</u>                          | <u>26,056,820</u>  |



KPMG LLP  
Suite 2000  
303 Peachtree Street, NE  
Atlanta, GA 30308

The Board of Directors  
PFS Investments Inc.:

In planning and performing our audit of the statement of financial condition of PFS Investments Inc. (the Company) as of December 31, 2005, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the statement of financial condition and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the SEC), we have made a study of the practices and procedures followed by the Company including tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e). Because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13, or in complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material



in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2005 to meet the SEC's objectives.

This report is intended solely for the information and use of management, the SEC, and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Atlanta, Georgia  
February 24, 2006