

BP 3/58

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

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	April 30, 2013
Estimated average burden hours per response.....	12.00



13011042

**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 01/01/12 AND ENDING 12/31/12  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: PFS Investments Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

3120 Breckinridge Boulevard

(No. and Street)

Duluth

(City)

GA

(State)

30099

(Zip Code)

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

Sharon Grubenhoff

(770) 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

(Address)

(City)

GA

(State)

30308

(Zip Code)

CHECK ONE:

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

**SEC  
Mail Processing  
Section**

FOR OFFICIAL USE ONLY	MAR 01 2013
	Washington DC

\*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)

SEC 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

EM 3/5/13

OATH OR AFFIRMATION

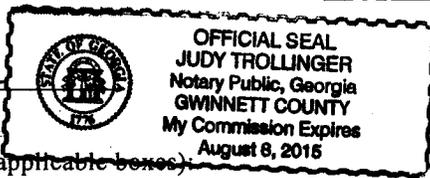
I, Sharon Grubenhoff, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of PFS Investments Inc., as of December 31, 2012, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Sharon Grubenhoff  
Signature

CFO / Treasurer  
Title

Judy Trollinger  
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).



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

Statement of Financial Condition

December 31, 2012

(With Report of Independent Registered Public Accounting Firm Thereon)



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

## Report of Independent Registered Public Accounting Firm

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, 2012, that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the statement of financial condition (the financial statement).

### *Management's Responsibility for the Financial Statement*

Management is responsible for the preparation and fair presentation of this financial statement in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the 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 financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statement in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statement referred to above presents fairly in all material respects, the financial position of PFS Investments Inc. as of December 31, 2012, in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

Atlanta, Georgia  
February 27, 2013

SEC  
Mail Processing  
Section

MAR 01 2013

RECEIVED FROM SEC  
400

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

Statement of Financial Condition

December 31, 2012

**Assets**

Cash and cash equivalents	\$ 33,976,502
Restricted cash	269,200
Securities owned, at fair value (cost \$7,740,422 in 2012)	7,761,528
Distribution costs receivable	6,834,950
Due from mutual funds	13,759,113
Accounts receivable from representatives	1,381,958
Receivables from affiliates	427,943
Contract buyout, net of accumulated amortization of \$14,852,934	5,797,367
Accrued interest income	6,155
Furniture, equipment, and leasehold improvements, at cost, net of accumulated depreciation and amortization of \$1,217,248	154,852
Tax indemnification asset	3,305,121
Deferred tax asset	2,541,758
Other assets	465,081
Total assets	<u><u>\$ 76,681,528</u></u>

**Liabilities and Stockholder's Equity**

<b>Liabilities:</b>	
Unpresented checks	\$ 1,713,582
Commissions payable to representatives	7,794,033
Payables to affiliates	3,200,230
Income taxes payable	4,271,499
Accounts payable and accrued expenses	8,985,004
Other liabilities	80,837
Commitments and contingent liabilities	
Total liabilities	<u>26,045,185</u>
<b>Stockholder's equity:</b>	
Common stock, \$0.10 par value. Authorized, 100,000 shares; issued and outstanding, 25,500 shares	2,550
Additional paid-in capital	43,751,348
Retained earnings	6,882,445
Total stockholder's equity	<u>50,636,343</u>
Total liabilities and stockholder's equity	<u><u>\$ 76,681,528</u></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, 2012

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

***Description of Business***

Since April 1, 2010, PFS Investments Inc. (the "Company") has been a wholly owned subsidiary of Primerica Finance Corporation, 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"). The Company's approximately 16,600 registered representatives primarily distribute mutual funds from five asset management firms. In these relationships, the Company receives dealer reallowances and 12b-1 trailer fees and, in turn, pays commissions to its representatives.

In 2011, the Company became a registered investment adviser in the United States and introduced a managed accounts program consisting of five portfolio models. The Company has a contractual arrangement with a third-party registered investment adviser to handle certain functions, including fund selections and modeling. Primerica Shareholder Services ("PSS"), an affiliated registered transfer agent, serves as the transfer agent for the program. The Company earns advisory and custodial fees under the managed accounts program and, in turn, pays a portion of the advisory fees to its investment adviser representatives.

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.

***Basis of Presentation***

We prepare our statement of financial condition 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 statements 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 and reported amounts of revenues and expenses for 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 statements. Current market conditions increase the risk and complexity of the judgments in these estimates.

***Securities Owned***

Securities owned are classified as trading securities and primarily consist of fixed-maturity and asset-backed 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 are recorded on a trade-date basis. We use the specific-identification method to determine realized gains or losses from securities sales.

***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, 2012 include commercial paper and U.S. Treasury bills totaling approximately \$ 32.3 million.

***Accounts Receivable from Representatives***

The Company advances commissions to individual agents on certain sales. Such advances are reduced as the related commissions are earned. Accounts receivable from representatives represent amounts due from

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

Notes to Statement of Financial Condition

December 31, 2012

agents for the advances, as well as licensing and commission reversals. Losses from such receivables are indemnified by other agents.

***Contract Buyout***

In July 1995, the Company paid a lump sum contract termination fee to Management Financial Services, Inc. The amortization of this contract buyout is calculated on a straight-line basis over 24 years and 4 months, which represents the life of the associated noncompete agreement. The Company periodically reviews this asset for impairment based on an undiscounted cash flow analysis. No events have occurred during 2012, and no factors exist as of December 31, 2012 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.

***Fair Value of Financial Instruments***

The carrying amounts for cash and cash equivalents, restricted cash, due from mutual funds, accounts receivable from representatives, affiliate receivables and payables, accrued investment income, commissions payable, and accounts payable and accrued expenses approximate their fair values because of the short-term nature of these instruments. The carrying value of distribution costs receivable appropriates fair value. Securities owned represent various investments in corporate fixed-maturity and asset-backed securities, which are carried at fair value.

***Distribution Costs Receivable***

Distribution costs receivable represent commissions paid to agents for sales of certain Class B mutual fund shares. Distribution costs receivable are recovered over 96 months through various fees charged to the mutual fund shareholders. No events have occurred during 2012, and no factors exist as of December 31, 2012 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.

***New Accounting Pronouncements***

During 2012, various accounting standard setting bodies, including the FASB, have been actively issuing updated and new guidance. Recent accounting guidance was not applicable, was immaterial to the Company's statement of financial condition, or did not have a material impact on our business.

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

Notes to Statement of Financial Condition

December 31, 2012

**(2) Securities Owned**

Securities owned, at fair value, as of December 31, 2012 were as follows:

	Fair value	Carrying amount
Corporate fixed-maturity securities	\$ 4,495,014	\$ 4,495,014
Asset-backed securities	3,266,514	3,266,514
Total securities owned	\$ 7,761,528	\$ 7,761,528

All of our asset-backed securities represent variable interests in variable interest entities (VIEs). We are not the primary beneficiary of these VIEs because we do not have the power to direct the activities that most significantly impact the entities' economic performance. The maximum exposure to loss as a result of our involvement in these VIEs equals the carrying value of the securities.

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements are based upon 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 categories:

- Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets that our pricing sources have the ability to access.
- Level 2 - Valuations based upon quoted prices for similar assets in active markets, quoted prices for identical or similar assets in inactive markets; or valuations based on models where the significant inputs are observable (e.g., interest rates, yield curves, prepayment speeds, default rates, loss severities) or can be corroborated by observable market data. Level 2 includes financial instruments that are valued using industry-standard pricing methodologies, models or other valuation methodologies.
- Level 3 – Valuations that are derived from techniques in which one or more of the significant input drivers are unobservable, including nonbinding broker quotes. 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.

As of the reporting period, all assets recorded at fair value are classified in their entirety based on the lowest level of input (Level 3 being the lowest) 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 assessing 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 quarter and at quarter-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 corroborating with 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.

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

Notes to Statement of Financial Condition

December 31, 2012

All of our securities owned as of December 31, 2012 were classified as Level 2. There were no transfers between Levels 1, 2, or 3 during 2012.

**(3) Income Taxes**

Deferred income taxes are recognized for the future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The tax effects of temporary differences that give rise to the net deferred tax liability at December 31, 2012 are presented below:

Deferred tax assets:	
State income taxes	\$ 1,742,186
Accrued expenses	4,529,614
Other	<u>718,025</u>
Total deferred tax assets	<u>6,989,825</u>
Deferred tax liabilities:	
Distribution costs	(2,406,709)
Intangible assets	<u>(2,041,358)</u>
Total deferred tax liabilities	<u>(4,448,067)</u>
Net deferred tax assets	<u>\$ 2,541,758</u>

There was no deferred tax asset valuation allowance at December 31, 2012. 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.

The total amount of unrecognized tax benefits at December 31, 2012 that, if recognized, would affect the Company's effective tax rate was approximately \$3.2 million.

The Company is a party to a tax separation agreement that includes a tax indemnification agreement, which was negotiated and executed as part of the separation from Citigroup, Inc. (together with its affiliates, "Citigroup"). The indemnification requires Citigroup to cover income tax liabilities and associated interest incurred by the Company for any consolidated, combined, or unitary returns for periods that end on or prior to the separation. As of December 31, 2012, the Company has a Citigroup tax indemnification asset of approximately \$3.3 million. Any consolidated, combined, or unitary tax liabilities not covered by the tax indemnification agreement are payable to the Parent. As of December 31, 2012, income taxes of approximately \$1.2 million are payable to the Parent.

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 years ended December 31, 2006, and thereafter for federal tax purposes.

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

Notes to Statement of Financial Condition

December 31, 2012

**(4) Net Capital Requirement**

The Company is subject to the Securities and Exchange Commission Net Capital Requirement for Brokers or Dealers, as mandated by Rule 15c3-1 of the Exchange Act. 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, 2012, the Company had net capital of approximately \$14.7 million, which was approximately \$13.0 million in excess of its required net capital of approximately \$1.7 million. The Company's aggregate indebtedness to net capital ratio was 1.75-to-1.

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

At December 31, 2012, the Company had no liabilities that were subordinated to the claims of general creditors.

**(6) Related-Party Transactions**

The Company purchases computer services, programming 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 owed PLIC approximately \$1.2 million for these services as of December 31, 2012. The Company has an arrangement in which PLIC pays operating and payroll expenses on behalf of the Company. The Company owed PLIC approximately \$1.1 million under this arrangement as of December 31, 2012. These amounts are included in payables to affiliates in the accompanying statement of financial condition. During 2012, the Company also purchased approximately \$34.3 million of investments at fair value from PLIC.

The Company has an arrangement in which it receives cash on behalf of Primerica Financial Services, Inc. ("PFS"), an affiliate, relating to commission income and pays all related expenses for sales of variable annuities, ultimately remitting the net amount to PFS. The Company owed PFS approximately \$1.3 million under this arrangement at December 31, 2012. This amount is included in payables to affiliates in the accompanying statement of financial condition. The Company receives a management fee relating to certain shared general and administrative expenses allocated to PFS. PFS owed the Company approximately \$86,400 for management fees at December 31, 2012. This amount is included as a reduction to payables to affiliates in the accompanying statement of financial condition. The Company has an arrangement in which it pays income tax installments on behalf of PFS. At December 31, 2012, PFS owed the company approximately \$328,800 under this arrangement. This amount is included as a reduction to payables to affiliates in the accompanying statement of financial condition.

The Company receives a management fee relating to certain shared general and administrative expenses allocated to PSS. PSS owed the Company approximately \$371,700 for these services as of December 31, 2012. This amount is included in receivables from affiliates in the accompanying statement of financial condition.

The Company paid dividends of \$24.0 million to the Parent during 2012, consisting of entirely cash.

**(7) Commitments and Contingent Liabilities**

In late 2011 and early 2012, several arbitration claims were filed with FINRA against us and certain of our registered representatives seeking unspecified damages arising from the allegation that the representatives improperly recommended that the claimants transfer their retirement benefits from the Florida Retirement System's defined benefit plan to its defined contribution plan. Currently, there are 22 pending arbitrations. Of these arbitrations, 17 have been scheduled for hearings in 2013, including two that are scheduled for hearings in the first quarter of 2013. In addition, eight lawsuits alleging the same claims has been filed against us, and a registered representative of ours in Miami-Dade County Circuit Court, and one lawsuit is pending in Federal Court for the Middle District of Florida. As some of the cases have multiple claimants, the total number of claimants, including both the arbitrations and the lawsuits, is 94. The law firm representing the claimants in these matters has engaged in solicitation

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

Notes to Statement of Financial Condition

December 31, 2012

activities directed to Florida state employees to generate interest in the cases and has informed us that they have a list of approximately 150 additional state employees who have responded to their advertisements. It is unclear how many additional claims will be filed. The law firm has demanded a substantial settlement for the matters it has already brought. We believe we have meritorious defenses to the claims, and we intend to vigorously defend against them. Most of the claims arose between 2002 and 2008, and are susceptible to statute of limitations defenses. In August 2012, one of the cases was dismissed by a Palm Beach County Circuit Court on statute of limitations grounds. An appeal of that decision is pending. Despite our defenses, we will incur significant costs, and possibly liabilities, defending and/or resolving these claims. Unless the matters are resolved, we will incur significant legal fees and litigation-related expenses in 2013. At this time, we are unable to reasonably estimate a range of possible losses.

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.

**(8) Restricted Cash**

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. The Company holds certain customer checks up to 96 hours and places an amount equal to 106% of the amount of the customers' checks held into a separate bank account for the exclusive benefit of customers. At December 31, 2012, the total amount of cash held in this separate account is reported as restricted cash in the accompanying statement of financial condition.

**(9) 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 values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the Company's statement of financial condition.

Distribution costs receivable are exposed to market risk. Due to the risks associated with distribution costs receivable, it is at least reasonably possible that changes in the market will occur in the near term and such changes could materially affect the amounts reported in the Company's statement of financial condition.

**(10) Subsequent Events**

The Company has evaluated subsequent events through February 27, 2013, the issuance date of the financial statements and has not identified any subsequent events, other than those disclosed herein.

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

Notes to Statement of Financial Condition

December 31, 2012

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

Pursuant to SEC 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. 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 financial statements 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 Part II</u>	<u>Variable annuity adjustments</u>	<u>Accompanying financial statements</u>
Total ownership equity (including adjustments)	\$ 536,765,465	(486,129,122)	50,636,343
Nonallowable assets	(523,141,810)	488,466,486	(34,675,324)
Haircuts on securities	(1,279,359)	5,843	(1,273,516)
Net capital	<u>\$ 12,344,296</u>	<u>2,343,207</u>	<u>14,687,503</u>



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

**Report of Independent Registered Public Accounting Firm on Internal Control Pursuant to Securities and Exchange Commission Rule 17a-5**

The Board of Directors  
PFS Investments Inc.:

In planning and performing our audit of the financial statements of PFS Investments Inc. (the Company) (a wholly owned subsidiary of Primerica Finance Corporation) as of December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included 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 (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13, and
2. 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 U.S. generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and 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 they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect misstatements, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in



internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined previously.

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, as described in the second paragraph of this report, were adequate at December 31, 2012 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, and other regulatory agencies that 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 27, 2013