

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form 10-K/A

PRE PAID LEGAL SERVICES INC  
Form 10-K/A  
July 02, 2002

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

FORM 10-K/A  
Amendment No. 1

(Mark one)

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

For the fiscal year ended December 31, 2001

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-9293

-----  
PRE-PAID LEGAL SERVICES, INC.  
(Exact name of registrant as specified in its charter)

Oklahoma  
(State or other jurisdiction of  
incorporation or organization)

73-1016728  
(I.R.S. Employer  
Identification No.)

321 East Main  
Ada, Oklahoma  
(Address of principal executive offices)

74820  
(Zip Code)

Registrant's telephone number including area code: (580) 436-1234

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class -----	Name of each exchange on which registered -----
Common Stock, \$0.01 Par Value	New York Stock Exchange

Securities registered under Section 12 (g) of the Exchange Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ( ).

State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days prior to the date of

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form 10-K/A

the filing: As of February 28, 2002 - \$370,000,000.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: As of February 28, 2002 there were 20,168,524 shares of Common Stock, par value \$.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE.

Portions of the Company's definitive proxy statement for its 2002 annual meeting of shareholders are incorporated into Part III of this Form 10-K by reference.

The undersigned registrant hereby amends the following items, financial statements, exhibits of other portions of its Annual Report on Form 10-K pursuant to Section 13 of the Securities and Exchange Act of 1934 for the fiscal year ended December 31, 2001, as set forth below and in the pages attached hereto.

Part IV, Item 14 - "Exhibits and Reports on Form 8-K" is amended (i) to include as Exhibit 99.1 the attached financial information relating to The Employee Stock Option Ownership and Thrift Plan and Trust ("Plan"), as required by Form 11-K, for the fiscal year of the Plan ended December 31, 2001, which is filed as an exhibit pursuant to Rule 15d-21 under the Securities Exchange Act of 1934, and (ii) to include as Exhibit 23.2 and 23.3 the consents of Grant Thornton LLP and Deloitte & Touche LLP, respectively relating to the use of their reports which are included as part of Exhibit 99.1.

The full text of Item 14 and the Exhibit Index, as amended, referred to therein are as set forth below.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

- (1) Financial Statements: See Index to Consolidated Financial Statements and Consolidated Financial Statement Schedule set forth on page 35 of this report.
- (2) Exhibits: For a list of the documents filed as exhibits to this report, see the Exhibit Index following the signatures to this report.

(b) Reports on Form 8-K: None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PRE-PAID LEGAL SERVICES, INC.

Date: July 1, 2002

By: /s/ Randy Harp

-----  
Randy Harp  
Chief Operating Officer

# Edgar Filing: PRE PAID LEGAL SERVICES INC - Form 10-K/A

## INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company, as amended (Incorporated by reference to Exhibit 4.1 of the Company's Report on Form 8-K dated January 10, 1997)
3.2	Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.1 of the Company's Report on Form 10-Q for the period ended September 30, 1996)
*10.1	Employment Agreement effective January 1, 1993 between the Company and Harland C. Stonecipher (Incorporated by reference to Exhibit 10.1 of the Company's Annual Report on Form 10-KSB for the year ended December 31, 1992)
*10.2	Agreements between Shirley Stonecipher, New York Life Insurance Company and the Company regarding life insurance policy covering Harland C. Stonecipher (Incorporated by reference to Exhibit 10.21 of the Company's Annual Report on Form 10-K for the year ended December 31, 1985)
*10.3	Amendment dated January 1, 1993 to Split Dollar Agreement between Shirley Stonecipher and the Company regarding life insurance policy covering Harland C. Stonecipher (Incorporated by reference to Exhibit 10.3 of the Company's Annual Report on Form 10-KSB for the year ended December 31, 1992)
*10.4	Form of New Business Generation Agreement Between the Company and Harland C. Stonecipher (Incorporated by reference to Exhibit 10.22 of the Company's Annual Report on Form 10-K for the year ended December 31, 1986)
*10.5	Amendment to New Business Generation Agreement between the Company and Harland C. Stonecipher effective January, 1990 (Incorporated by reference to Exhibit 10.12 of the Company's Annual Report on Form 10-KSB for the year ended December 31, 1992)
*10.6	Amendment No. 1 to Stock Option Plan, as amended effective May 2000 (Incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000)
*10.7	Demand Note of Wilburn L. Smith and Carol Smith dated December 11, 1992 in favor of the Company (Incorporated by reference to Exhibit 10.15 of the Company's Form SB-2 filed February 8, 1994)
*10.8	Demand Note of Wilburn L. Smith and Carol Smith dated December 31, 1996 in favor of the Company (Incorporated by reference to Exhibit 10.8 of the Company's Form 10-K filed for the year ending December 31, 1997)
*10.9	Security Agreement between the Company, Wilburn L. Smith and Carol Smith dated December 11, 1992 (Incorporated by reference to Exhibit 10.16 of the Company's Form SB-2 filed February 8, 1994)
*10.10	Letter Agreements dated July 8, 1993 and March 7, 1994 between the Company and Wilburn L. Smith (Incorporated by reference to Exhibit 10.17 of the Company's Form 10-KSB filed for the year ending December 31, 1993)
10.11	Agreement and Plan of Reorganization dated as of September 23, 1998 between the Company and TPN, Inc. (Incorporated by reference to Exhibit 2.1

## Edgar Filing: PRE PAID LEGAL SERVICES INC - Form 10-K/A

of the Company's Current Report on Form 8-K dated October 2, 1998)

- 10.12 Stock Purchase Agreement dated as of October 5, 1998 between the Company and Pioneer Financial Services, Inc. (Incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K dated December 30, 1998)
- \*10.13 Demand Note of Wilburn L. Smith dated October 8, 1998 in favor of the Company (Incorporated by reference to Exhibit 10.13 of the Company's Form 10-K filed for the year ended December 31, 1998)
- \*10.14 Stock option agreement with David A. Savula dated February 6, 1998 (Incorporated by reference to Exhibit 10.14 of the Company's Form 10-K filed for the year ended December 31, 1998)
- \*10.15 Stock option agreement with David A. Savula dated July 2, 1998 (Incorporated by reference to Exhibit 10.15 of the Company's Form 10-K filed for the year ended December 31, 1998)
- \*10.16 Stock option agreement with David A. Savula dated July 2, 1998 (Incorporated by reference to Exhibit 10.16 of the Company's Form 10-K filed for the year ended December 31, 1998)
- 10.17 Demand Note of Randy Harp dated December 22, 2000 in favor of the Company (Incorporated by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000)
- 10.18 Loan agreement dated November 6, 2001 between Bank of Oklahoma, N.A. and the Company (Incorporated by reference to Exhibit 10.18 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000)
- 10.19 Security agreement dated November 6, 2001 between Bank of Oklahoma, N.A. and the Company (Incorporated by reference to Exhibit 10.19 of the Company's Annual Report on Form 10-K for the year ended December 31, 2000)
- 21.1 List of Subsidiaries of the Company (Incorporated by reference to Exhibit 21.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001)
- 23.1 Consent of Grant Thornton LLP (Incorporated by reference to Exhibit 23.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001)
- 23.2 Consent of Grant Thornton LLP relating to report concerning plan financial information included as part of Exhibit 99.1
- 23.3 Consent of Deloitte & Touche LLP relating to report concerning plan financial information included as part of Exhibit 99.1
- 99.1 Financial information relating to the Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan and Trust, as required by Form 11-K for the fiscal year of the plan ended December 31, 2001  
-----

\* Constitutes a management contract or compensatory plan or arrangement required to be filed as an exhibit to this report.

Exhibit 23.2 - Consent of Grant Thornton LLP

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS  
-----

## Edgar Filing: PRE PAID LEGAL SERVICES INC - Form 10-K/A

We have issued our report dated June 20, 2002, accompanying the financial statements and schedules of the Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan and Trust for the year ended December 31, 2001, included in this Amendment No. 1 on Form 10-K/A of Pre-Paid Legal Services, Inc. for the year ended December 31, 2001. We hereby consent to the incorporation by reference of said report in the Registration Statement of Pre-Paid Legal Services, Inc. on Form S-8 (File No. 33-82144, effective July 28, 1994).

GRANT THORNTON LLP

Oklahoma City, Oklahoma  
June 20, 2002

Exhibit 23.3 - Consent of Deloitte & Touche LLP

### INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 33-82144 of Pre-Paid Legal Services, Inc. on Form S-8 of our report dated June 15, 2001 on the financial statements of the Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan and Trust for the year ended December 31, 2000 appearing in this Amendment No. 1 on Form 10-K/A of Pre-Paid Legal Services, Inc. for the year ended December 31, 2001.

/s/DELOITTE & TOUCHE LLP  
Deloitte & Touche LLP  
Tulsa, Oklahoma  
June 28, 2002

Exhibit 99.1 - Financial Statements and Report of independent certified public accounts for the Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan Trust for the fiscal year of the plan ended December 31, 2001

Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan and Trust  
December 31, 2001 and 2000

### C O N T E N T S

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL STATEMENTS

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

NOTES TO FINANCIAL STATEMENTS

# Edgar Filing: PRE PAID LEGAL SERVICES INC - Form 10-K/A

## SUPPLEMENTAL SCHEDULES

SCHEDULE H, LINE 4i - ASSETS HELD FOR INVESTMENT PURPOSES

SCHEDULE H, LINE 4j - REPORTABLE TRANSACTIONS

Report of Independent Certified Public Accountants  
-----

Trustee and Participants

Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan and Trust

We have audited the accompanying statement of net assets available for benefits of Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan and Trust as of December 31, 2001, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan and Trust as of December 31, 2001, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole as of and for the year ended December 31, 2001. The supplemental schedules of assets held for investment purposes and reportable transactions are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplemental information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. Such supplemental schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

GRANT THORNTON LLP

Oklahoma City, Oklahoma  
June 20, 2002

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form 10-K/A

INDEPENDENT AUDITORS' REPORT

To the Trustees and Participants of the  
Pre-Paid Legal Services, Inc.  
Employee Stock Ownership and  
Thrift Plan and Trust:

We have audited the accompanying statement of net assets available for benefits of the Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan and Trust (the "Plan") as of December 31, 2000, and the related statements of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2000, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/DELOITTE & TOUCHE LLP  
Deloitte & Touche LLP  
Tulsa, Oklahoma  
June 15, 2001

Pre-Paid Legal Services, Inc. Employee Stock Ownership  
and Thrift Plan and Trust The  
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

December 31,

	2001
	----
ASSETS	
Cash and cash equivalents	\$ 296,45
Investments, at fair value	
Pre-Paid Legal Services, Inc. common stock	4,108,74
Participant-directed mutual funds	842,95
Participant notes	50,50
Receivables	
Employer contributions	210,67

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form 10-K/A

Participants' elective deferrals

8,83

NET ASSETS AVAILABLE FOR BENEFITS

\$5,518,16

The accompanying notes are an integral part of these statements.

Pre-Paid Legal Services, Inc. Employee Stock Ownership  
and Thrift Plan and Trust  
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31,

	2001
	----
Additions	
Employer contributions (Pre-Paid Legal Services, Inc. common stock)	\$ 210,67
Participant contributions	375,29
Interest and dividend income	36,53
Net appreciation in fair value of investments	-
Total additions	----- 622,50
Deductions	
Benefits paid to participants	155,53
Net depreciation in fair value of investments	635,93
Total deductions	----- 791,46
NET INCREASE (DECREASE) IN NET ASSETS	----- (168,96)
Net assets available for benefits at beginning of year	5,687,12
Net assets available for benefits at end of year	----- \$5,518,16

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS  
December 31, 2001 and 2000

NOTE A - DESCRIPTION OF PLAN AND SUMMARY OF ACCOUNTING POLICIES



## Edgar Filing: PRE PAID LEGAL SERVICES INC - Form 10-K/A

The Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan and Trust (the "Plan") was established on January 1, 1988 for the benefit of the employees of Pre-Paid Legal Services, Inc. and its subsidiaries (the "Company"). The Plan is administered by a committee of two employees appointed by the Company (the "Committee"). The Committee also serves as the Plan's Trustee and Investment Manager.

Under the terms of the Plan, the Committee may acquire, hold and dispose of all cash and investments, including common and preferred stock of the Company, through a trust fund. Participants who have attained the age of 55 have the right to make an election to direct the Committee as to the investment of their accounts. Such participants may elect to diversify up to 100% of their deferred compensation accounts and the vested portion of their Company Contributed Accounts in one or more "no load" mutual funds of any regulated investment company as defined by Section 851 of the Internal Revenue Code.

Each participant or beneficiary shall have the sole right to vote shares of Company common stock allocated to such participant's account. The right to vote such shares shall be exercised by directing the Committee as to the manner in which the shares shall be voted.

The following is a summary of the Plan's significant accounting policies.

### 1. Basis of Accounting

The Plan's financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

### 2. Cash and Cash Equivalents

Cash and cash equivalents consist of the Plan's linked cash and money fund accounts at a national brokerage firm. Money fund amounts have a unit value of \$1 and balances are immediately accessible by the Plan.

### 3. Investments

Investments are presented at fair value as measured by market prices in active markets, including national securities exchanges. The cost of Company common stock sold is determined on the basis of average cost. Actual cost is used as a basis for sales of all other investments. Investment transactions are recorded on a trade date basis.

### 4. Participant Notes

Effective July 1, 2001, the Plan began to permit participant notes. Participant notes are approved by the Committee and cannot be made for an amount less than \$1,000 or exceed the lesser of \$50,000 reduced by the excess of the highest outstanding balance of loans during the one-year period ending on the day before the loan is made or one-half of the participant's vested balance. The notes are secured by the participant's vested interest in the Plan, bear interest and are repayable based upon rates and terms set forth in the Plan.

### 5. Noncash Contributions

Contributions of Company common stock are recorded at fair value as determined by using the average closing price of Company common stock as quoted on the New York Stock Exchange for each day when the stock is traded during the 20 day period immediately preceding the date of contribution.

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form 10-K/A

6. Expenses

The Company elected to pay all of the Plan's administration expenses in 2001 and 2000 although it is not obligated to do so. Any expenses not paid by the Company would be paid by the Plan.

7. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the reporting period. Actual results could differ from those estimates. Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for plan benefits.

NOTE B - PLAN DESCRIPTION

The following brief description of the provisions of the Plan is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

1. General

The Plan is a defined contribution plan covering certain employees of the Company and employees of affiliated companies which are included in the Company's consolidated tax return. The Plan year end is December 31. All employees at least 21 years of age are eligible to enroll in the Plan on January 1 or July 1 following the date the employee completes one year of service (1,000 hours) within 12 consecutive months of their employment date.

2. Discretionary Matching Company Contributions

The Company may make discretionary contributions to the Plan for each plan year. The contributions may vary from year to year and are determined by written action of the Board of Directors of the Company. Contributions may be made only out of the Company's consolidated net profits before federal and state income taxes from the current or a preceding plan year. The Company's contribution may be paid to the Trustee either in cash, qualified employer securities or in other property. In 2001 and 2000, all Company contributions were made in qualified employer securities.

The Discretionary Matching Company Contribution is an amount determined, in the sole discretion of the Company and added to amounts forfeited by other participants, to match the following percentages of participants' deferred compensation contributions (up to a maximum of 6%) for the plan year. The Discretionary Matching Company Contribution is allocated at the end of each plan year to each participant's Company Contribution Account based on the following percentages:

Years of service	
on first day of	Matching
Plan year	percentages
-----	-----

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form 10-K/A

0 - 5	50%
6 - 10	75%
11 or more	100%

3. Employee Deferred Compensation Contributions

A participant may elect to defer a portion of his compensation in the form of a contribution to his deferred compensation account under the Plan. Participants contribute to the Plan on a pre-tax basis only. Subject to the limitations contained in the Plan, a participant may elect to defer any portion of his compensation. However, a participant may never defer more than the lesser of the Internal Revenue Service limitation (\$10,500 in 2001 and 2000) in any plan year or a percentage of compensation greater than the maximum percentage of compensation determined annually by the Committee.

Separate accounts are maintained for each participant in the Plan. When an election is made by the participant to defer part of his compensation, an Employee Deferred Compensation Account is established. Each participant will also have a Company Contribution Account consisting of discretionary matching contributions made by the Company and a proportionate share of forfeitures.

All amounts in the participant's accounts are placed in a trust fund and invested by the Trustee. The Trustee must invest the trust fund solely in the interest of and for the exclusive purpose of providing benefits to the participants and their beneficiaries while minimizing the expenses of administering the Plan. Under the terms of the Plan, all Company contributions and up to 75% of the participant's contributions may be invested in common stock of the Company or in preferred stock convertible into common stock of the Company at a conversion price which, as of the date of acquisition by the Plan, is reasonable. Such securities are termed qualified employer securities.

Participants who have reached the age of 55 may elect to diversify up to 100% of their Employee Deferred Compensation Accounts and the vested portion of their Company Contribution Accounts in one or more qualifying "no load" mutual funds.

A participant will be entitled to his Employee Deferred Compensation Account at the normal retirement date (age 59 1/2), or upon permanent disability, death, separation from employment or in the case of hardship (as determined by the Committee).

A participant will be entitled to the full amount credited to his Company Contribution Account at the normal retirement date or upon permanent disability or death. If a participant terminates employment for any reason after he has completed at least one year of service, he will be entitled to receive a portion or all of his account, depending on his years of service. The percentage of the Company Contribution Account to which a participant is entitled and the percentage forfeited if a participant leaves the Company for reasons other than retirement, permanent disability or death prior to becoming fully vested is computed according to the following formula:

Years of service -----	Vested percentage -----	Forfeited percentage -----
Less than 1	0%	100%

## Edgar Filing: PRE PAID LEGAL SERVICES INC - Form 10-K/A

1 but less than 2	20%	80%
2 but less than 3	40%	60%
3 but less than 4	60%	40%
4 but less than 5	80%	20%
5 or more	100%	0%

A participant will always be fully vested in his Employee Deferred Compensation Account, regardless of his years of service.

The Company may amend the Plan at any time to conform to the Internal Revenue Code, Treasury Regulations and Rulings thereunder. The Company has the right to terminate the Plan at any time upon prior written notice to the Trustee and may direct the Trustee to liquidate the shares of participants in the trust fund. Upon termination or permanent suspension of contributions, the accounts of all participants affected thereby shall become nonforfeitable and shall be distributed.

### NOTE C - INVESTMENTS

At December 31, 2001 and 2000, the Plan held 187,614 and 170,823 shares, respectively, of the Company's common stock with a cost of \$1,544,034 and \$1,126,512, respectively. Other than the Company's common stock (which is a nonparticipant-directed investment), investments of the Plan which represented 5% or more of the Plan's net assets available for benefits at December 31, 2001 and 2000 were participant-directed investments of \$372,802 and \$452,415, respectively, held in the Federated Investors Automated Cash Management Trust SS. In addition, the Plan's nonparticipant-directed Merrill Lynch CMA Government Securities Fund balance of \$296,455 represented 5.37% of net assets available for benefits at December 31, 2001.

### NOTE D - NONPARTICIPANT-DIRECTED INVESTMENTS

Information regarding the Plan's nonparticipant-directed investment in the Company's common stock at December 31, 2001 and 2000 is included in Note C above. Significant components of the changes in net assets relating to nonparticipant-directed investments (including activity in the Plan's cash and cash equivalents) for the years ended December 31, 2001 and 2000 is as follows:

	20
	--
Net investment gain (loss)	\$ (60
Contributions	
Employer	21
Employee	37
Benefits paid to participants	(6
Transfers to participant-directed investments, net	(4
	----
	\$ (12
	===

### NOTE E - TAX STATUS

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form 10-K/A

A favorable determination letter dated June 22, 1993 was received from the Internal Revenue Service indicating that the Plan, as amended through December 17, 1991, qualifies under Section 401(a) of the Internal Revenue Code and is exempt from Federal income taxes under Section 501(a) of the Code. The Plan has been amended since receiving the determination letter. However, the Company and the Committee believe that the Plan is currently designed and operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, the Company and the Committee believe that the Plan continues to be qualified and no provision for income taxes has been included in the Plan's financial statements.

NOTE F - DISTRIBUTIONS

Former participants may request distribution of their accounts in the form of Company common stock or cash. The ability of the Plan to make distributions in cash depends, in part, on the cash available within the Plan to purchase the former participants' vested shares of the Company's common stock. Former participants who have elected to diversify all or a portion of their Plan accounts into qualified "no load" mutual fund investments will receive a distribution of mutual fund shares or cash. Distributions made in 2001 consisted of 1,089 shares of the Company's common stock and cash of \$134,717. Distributions made in 2000 consisted of 1,932 shares of the Company's common stock and cash of \$63,380.

Former participants who terminated employment during 2001 and had not yet received distribution of their account at December 31, 2001 will receive distribution in 2002. The balance due former participants at December 31, 2001 included 270 shares of the Company's common stock and cash of \$2,000. The balance due former participants at December 31, 2000 included 592 shares of the Company's common stock and cash of \$4,365.

SUPPLEMENTAL SCHEDULES

Pre-Paid Legal Services, Inc. Employee Stock Ownership  
and Thrift Plan and Trust  
SCHEDULE H, LINE 4i - ASSETS HELD FOR INVESTMENT PURPOSES

December 31, 2001

(a)	(b)	(c)	(d)
Identity of issuer, borrower, lessor, or similar party; description of investment		Units	Cost
Corporate common stock			
*Pre-Paid Legal Services, Inc.		187,614 shares	\$1,544,034

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form 10-K/A

Short-term funds

Federated Investors						
Automated Cash Management Trust SS	372,802 units					372
Merrill Lynch - Money Funds						
CMA Government Securities Fund	296,455 units					296
American Funds						
U.S. Treasury Money Fund of America	227,827 units					227
Morgan Stanley Dean Witter						
Dividend Growth Securities B	3,619 units					187
Liquid Asset Fund	1 unit					
Vanguard Group						
Health Care Fund	614 units					66
500 Index Fund	38 units					4
						-----
						1,155
						\$2,699
						=====

\* Party-in-interest to the Plan

SCHEDULE H, LINE 4j--REPORTABLE TRANSACTIONS

Year ended December 31, 2001

(a) Identity of party involved	(b) Description of asset	(c) Purchase Price	(d) Selling Price	(e) Lease Rental	(f) Expense incurred with Transaction	(g) Cost of Asset
-----	-----	-----	-----	-----	-----	-----
*Pre-Paid Legal Services, Inc.	Common stock, 8 purchases	\$447,537	\$ -	\$ -	\$ -	\$447,537

\* Party in interest