

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

PRE PAID LEGAL SERVICES INC
Form DEF 14A
April 09, 2002

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to ss. 240.14a-11(c) or ss. 240.14a-12

PRE-PAID LEGAL SERVICES, INC.
(Name of Registrant as Specified in its Charter)

NOT APPLICABLE
(Name of Person(s) Filing Proxy Statement if Other Than Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i) (4) and 0-11.
 - (1) Title of each class of securities to which transaction applies: _____.
 - (2) Aggregate number of securities to which transaction applies: _____.
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11: _____.
 - (4) Proposed maximum aggregate value of transaction: _____.
 - (5) Total fee paid: _____.
- Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
 - (1) Amount Previously Paid: _____.
 - (2) Form, Schedule or Registration Statement No.: _____.
 - (3) Filing Party: _____.
 - (4) Date Filed: _____.

PRE-PAID LEGAL SERVICES, INC.
321 East Main Street
P. O. Box 145

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

Ada, Oklahoma 74821-0145

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO THE HOLDERS OF SHARES OF COMMON STOCK:

The Annual Meeting of Shareholders of PRE-PAID LEGAL SERVICES, INC. (the "Company") will be held in the Seminar Center at Pontotoc Area VoTech School at 601 West 33rd Street in Ada, Oklahoma, on Friday, May 31, 2002, at 1:00 p.m., local time, for the following purposes:

- (1) To elect three members to the Company's Board of Directors.
- (2) To transact such other business as may properly be brought before the Annual Meeting or any adjournment thereof.

The Annual Meeting may be recessed from time to time and, at any reconvened meeting, action with respect to the matters specified in this notice may be taken without further notice to shareholders unless required by the bylaws.

Shareholders of record of Common Stock at the close of business on April 5, 2002 are entitled to notice of, and to vote on all matters at, the Annual Meeting. A list of all shareholders will be available for inspection at the Annual Meeting and, during normal business hours the ten days prior thereto, at the offices of the Company, 321 East Main Street, Ada, Oklahoma.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ KATHRYN WALDEN

Kathryn Walden, Secretary

Ada, Oklahoma
April 12, 2002

Please vote by telephone or by using the Internet as instructed on the enclosed Proxy Card or complete, sign and date the enclosed Proxy Card and return it promptly in the envelope enclosed for that purpose. You may nevertheless vote in person if you do attend the meeting.

PROXY STATEMENT
PRE-PAID LEGAL SERVICES, INC.
321 East Main Street
P. O. Box 145
Ada, Oklahoma 74821-0145

2002 ANNUAL MEETING OF SHAREHOLDERS

The following information is furnished in connection with the 2002 Annual Meeting of Shareholders of PRE-PAID LEGAL SERVICES, INC. (the "Company") to be held in the Seminar Center at Pontotoc Area VoTech School at 601 West 33rd Street in Ada, Oklahoma, on Friday, May 31, 2002, at 1:00 p.m., local time. This Proxy Statement and accompanying materials will be mailed on or about April 12, 2002 to holders of record of Common Stock as of the record date.

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

The record date for determining shareholders entitled to notice of the Annual Meeting and to vote has been established as the close of business on April 5, 2002. On that date, the Company had 19,993,970 shares of Common Stock, par value \$.01 per share, outstanding and eligible to vote, exclusive of treasury stock. Holders of record of the Company's Common Stock on the record date will be entitled to one vote for each share held on all matters properly brought before the Annual Meeting.

The Board of Directors of the Company is soliciting the enclosed proxy. All costs of soliciting proxies for the Annual Meeting will be borne by the Company. In addition to use of the mails, proxies may be solicited by telephone, telecopy or personal interview by directors, officers or other regular employees of the Company. No additional compensation will be paid to directors, officers or other regular employees for such services. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of Common Stock beneficially owned by others to forward to such beneficial owners. The Company will, upon request, reimburse such persons for their reasonable expenses in forwarding proxy materials to beneficial owners.

Any shareholder returning the accompanying proxy or voting by telephone or the Internet may revoke such proxy at any time prior to its exercise by (a) giving written notice to the Company of such revocation, (b) voting in person at the Annual Meeting, (c) voting by telephone or using the Internet as instructed below (your latest telephone or Internet proxy is counted) or (d) executing and delivering to the Company a later dated proxy. Written revocations and later dated proxies should be sent to PRE-PAID LEGAL SERVICES, INC., P. O. Box 145, Ada, Oklahoma 74821-0145, Attention: Kathryn Walden, Secretary.

ELECTION OF DIRECTORS

The Board of Directors of the Company consists of ten members and is divided into three classes as nearly equal in size as possible, with the term of office of one class expiring each year. The Board of Directors has nominated and proposes that Harland C. Stonecipher, Wilburn L. Smith and Martin H. Belsky, whose terms as directors expire as of the Annual Meeting of Shareholders for 2002, be re-elected for three-year terms as directors.

The election of directors will require the affirmative vote of a plurality of the shares of Common Stock voting in person or by proxy at the Annual Meeting. All proxies received by the Board of Directors of the Company will be voted, in the absence of instructions to the contrary, FOR the re-election of Harland C. Stonecipher, Wilburn L. Smith and Martin H. Belsky to the Board of Directors.

Should the nominees for election to the Board of Directors be unable to serve for any reason, the Board of Directors may, unless the Board by resolution provides for a lesser number of directors, designate substitute nominees in which event all proxies received without instructions will be voted for the election of such substitute nominees. However, to the best knowledge of the Board of Directors of the Company, the named nominees will serve if elected.

The following is certain information about each director of the Company:

Name	Age	Director Since	Term Expires
-----	---	-----	-----

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

Harland C. Stonecipher	63	1976	2002
Wilburn L. Smith	61	1997	2002
Martin H. Belsky	57	1998	2002
Kathleen S. Pinson	49	1990	2003
David A. Savula	54	1998	2003
John W. Hail	71	1998	2003
John A. Addison	44	2000	2003
Shirley A. Stonecipher	61	1998	2004
Peter K. Grunebaum	68	1980	2004
Randy Harp	46	1990	2004

Harland C. Stonecipher

Mr. Stonecipher has been the Chairman of the Board of Directors of the Company since its organization in 1976 and served as Chief Executive Officer until March 1996 and since February 1997. Mr. Stonecipher also served as President of the Company at various times through January 1995. Mr. Stonecipher also serves as an executive officer of various subsidiaries of the Company and as a director of Advantage Marketing Systems, Inc. Mr. Stonecipher is employed pursuant to an employment agreement which, unless sooner terminated, expires on June 30, 2003, with the Company retaining the right to extend the agreement for up to ten additional years.

Wilburn L. Smith

Mr. Smith has been active in the marketing division of the Company since 1980 and was named Vice President of Marketing and Agency Director in July 1990. Mr. Smith served as a director of the Company from March 1993 to October 1995. In April 1997, the Board of Directors appointed Mr. Smith as the Company's President and he was elected by the Board of Directors to serve again as a director of the Company.

Martin H. Belsky

Mr. Belsky, currently Dean and Professor of Law at the University of Tulsa College of Law, teaches courses in constitutional law, ethics, international law, and oceans policy. Previously, Mr. Belsky was Dean and Professor of Law at Albany Law School from 1986 to 1995.

Kathleen S. Pinson

Ms. Pinson was named Controller of the Company in May 1989 and has been a Vice President of the Company since June 1982. Ms. Pinson has been employed by the Company since 1979 and has been the chief accounting officer since 1982. Ms. Pinson is a Certified Public Accountant.

David A. Savula

Mr. Savula has been active in the marketing division of the Company as an independent contractor since 1992. Prior to his involvement with the Company, Mr. Savula developed extensive multilevel marketing experience, both in the U.S. as well as Canada, with other multilevel marketing companies.

John W. Hail

John W. Hail is the founder of Advantage Marketing Systems, Inc. and has served as Chief Executive Officer and Chairman of the Board of Directors of Advantage Marketing Systems, Inc. since its inception in June 1988. From July 1986 through May 1988, Mr. Hail served as Executive Vice President, Director and Agency Director of the Company and also served as Chairman of the Board of Directors of TVC Marketing, Inc., which was the exclusive marketing agent of the Company from April 1984 through September 1985.

John A. Addison

John A. Addison is Co-Chief Executive Officer and President of Primerica Financial Services, a subsidiary of Citigroup and one of North America's largest

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

financial services marketing organizations with more than 100,000 representatives. Mr. Addison oversees the development and execution of all aspects of Primerica's marketing and sales strategies.

Shirley A. Stonecipher

Mrs. Stonecipher has been involved with the Company since its inception in 1972 as an advisor to her husband, Harland C. Stonecipher. Mrs. Stonecipher has attended most major Company-sponsored marketing rallies over the past 25 years and has been involved with certain specific marketing initiatives, such as the First Ladies Club aimed at providing recognition for the wives of marketing associates.

Peter K. Grunebaum

Mr. Grunebaum is currently Managing Director of Fortrend International, an investment firm headquartered in New York, New York, a position he has held since 1989.

Randy Harp

Mr. Harp was named Chief Financial Officer in March 1990 and served in that capacity until May 2000 and has served as Chief Operating Officer since March 1996. Mr. Harp is a Certified Public Accountant. Mr. Harp also serves as a director of Canaan Energy Corporation.

Board Meetings and Committees

The Board of Directors held four meetings during the year ended December 31, 2001. During such year all directors attended at least 75% of the meetings of the full Board and the committees on which they served except for Mr. Addison who attended two of the four meetings.

The Board of Directors has established an Executive Committee consisting of Messrs. Stonecipher, Harp and Grunebaum and an Audit Committee consisting of Messrs. Grunebaum, Belsky and Hail. The Executive Committee may exercise all of the powers of the Board of Directors, except to the extent limited by law. The Audit Committee makes recommendations to the Board of Directors concerning the selection of and oversees the Company's relationship with its independent auditors and reviews with the independent auditors the scope and results of the annual audit. The Audit Committee also reviews financial statements and reports including proxy statements, Forms 10-K and Forms 10-Q, reviews all significant financial reporting issues and practices and monitors internal control policies. Each of the members of the Audit Committee meets the independence standards of the New York Stock Exchange. The Audit Committee held seven meetings during 2001. The Board of Directors does not have standing nominating or compensation committees.

Harland C. Stonecipher and Shirley A. Stonecipher are husband and wife. No other family relationships exist among the directors or executive officers of the Company.

Compensation of Directors

Directors who are also employees of the Company or its subsidiaries receive no additional compensation for their services as directors. Non-employee directors of the Company receive \$500 per meeting attended. Under the Company's Stock Option Plan, each non-employee director also receives on March 1 of each year options to purchase 10,000 shares of Common Stock. These options are immediately exercisable as of the date of grant as to one-fourth of the shares covered by the options and vest in additional one-fourth increments on the following June 1st, September 1st and December 1st in the year of grant, subject to continued service by the non-employee director during such periods. Options

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

granted to non-employee directors under the Stock Option Plan have an exercise price equal to the closing price of the Common Stock on the date of grant as reported by the New York Stock Exchange and expire five years from the date of grant.

The Board of Directors recommends that the shareholders vote "FOR" the re-election of Harland C. Stonecipher, Wilburn L. Smith and Martin H. Belsky to the Board of Directors.

Fiscal 2001 Audit and Other Fees

The firm of Grant Thornton LLP was engaged in September 2001 to serve as the Company's independent auditor for the restatement audit of fiscal years 1998 through 2000 and our annual audit for the fiscal year ended December 31, 2001. The aggregate fees billed by Grant Thornton LLP for the restatement audit of the Company's consolidated financial statements for 1998 through 2000, and the related profession services, are set forth below under the caption All Other Fees. The aggregate fees billed by Grant Thornton LLP for the annual audit of the Company's consolidated financial statements for the fiscal year 2001 are set forth below under the caption Audit Fees. Grant Thornton LLP performed no services, and therefore no fees were billed by Grant Thornton LLP for financial information systems design and implementation, or for other professional services during fiscal 2001:

Audit Fees.....	\$	92,000
Financial Information Systems Design and Implementation Fees...	\$	-
All Other Fees.....	\$	180,000

The Audit Committee has considered whether the provision of non-audit services by Grant Thornton LLP is compatible with maintaining auditor independence.

AUDIT COMMITTEE REPORT

In accordance with its written charter adopted by the Board of Directors ("Board"), the Audit Committee of the Board ("Committee") assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing and financial reporting practices of the Company. During fiscal 2001, the Committee met seven times, and the Committee chair, as representative of the Committee, discussed the interim financial information contained in each quarterly earnings announcement with the CFO and independent auditors prior to public release.

In discharging its oversight responsibility as to the audit process, the Audit Committee obtained from the independent auditors a formal written statement describing all relationships between the auditors and the Company that might bear on the auditors' independence consistent with Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," discussed with the auditors any relationships that may impact their objectivity and independence and satisfied itself as to the auditors' independence. The Committee also discussed with management and the independent auditors the quality and adequacy of the Company's internal controls. The Committee reviewed with the independent auditors their audit plans, audit scope, and identification of audit risks.

The Committee discussed and reviewed with the independent auditors all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, "Communication with Audit Committees" and, with and without management present, discussed and reviewed the results of the independent auditors' examination of the financial statements.

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

The Committee reviewed the audited financial statements of the Company as of and for the fiscal year ended December 31, 2001, with management and the independent auditors. Management has the responsibility for the preparation of the Company's financial statements and the independent auditors have the responsibility for the examination of those statements.

Based on the above-mentioned review and discussions with management and the independent auditors, the Committee recommended to the Board that the Company's audited financial statements be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2001, for filing with the Securities and Exchange Commission. The Committee intends to recommend reappointment of the independent auditors to the Board.

Peter K. Grunebaum
Committee Chairman

Martin H. Belsky
Committee Member

John W. Hail
Committee Member

EXECUTIVE COMPENSATION AND OTHER INFORMATION

Executive Officers

Name	Position
Harland C. Stonecipher	Chairman of the Board of Directors and Chief Executive Officer
Wilburn L. Smith	President
Randy Harp	Chief Operating Officer
Kathleen S. Pinson	Vice President and Controller
Steve Williamson	Chief Financial Officer

Each of the executive officers of the Company with the exception of Mr. Williamson is also a director of the Company. For descriptions of the business background and other information concerning the executive officers other than Mr. Williamson, see "Election of Directors" above.

Steve Williamson

Mr. Williamson was named Chief Financial Officer of the Company in May 2000. From April 1997 until his employment with the Company in March 2000, Mr. Williamson served as the Chief Financial Officer of Peripheral Enhancements, Inc., an electronic memory assembly company. Prior to April 1997, Mr. Williamson served as Director in Charge of Banking Practice for Horne & Company, a public accounting firm. Mr. Williamson is a Certified Public Accountant.

Executive Compensation

The following table sets forth the compensation paid by the Company and its subsidiaries for services rendered during the years ended December 31, 2001, 2000 and 1999 to the chief executive officer and to each other person serving as an executive officer of the Company as of December 31, 2001 whose compensation exceeded \$100,000 during 2001. Such individuals are referred to herein as the "named executive officers."

Summary Compensation Table

	Annual Compensation	Long Term Compensation

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

Name and Principal Position	Year	Salary	Bonus (1)	Securities Underlying Options	All Compens
Harland C. Stonecipher.....	2001	\$157,755	\$1,473,556	100,000	\$11
Chairman of the Board and	2000	157,755	1,230,297	100,000	11
Chief Executive Officer	1999	157,755	947,720	100,000	12
Wilburn L. Smith.....	2001	-	1,967,795	-	7
President	2000	-	1,562,532	-	5
	1999	-	1,075,742	-	5
Randy Harp.....	2001	167,019	32,500	80,000	5
Chief Operating Officer	2000	145,196	40,000	50,000	7
	1999	120,865	40,000	50,000	3
Kathleen S. Pinson.....	2001	110,613	12,500	5,000	5
Vice President and Controller	2000	100,763	9,000	5,000	3
	1999	91,560	6,000	5,000	3
Steve Williamson.....	2001	99,365	7,500	15,000	1
Chief Financial Officer					

(1) Bonus to Mr. Stonecipher consists of override commissions earned by Mr. Stonecipher pursuant to his employment agreement with the Company of \$240,000, \$240,000 and \$213,467 during 2001, 2000 and 1999, respectively, and override commissions earned by Mr. Stonecipher with respect to commissions earned by PPL Agency, Inc., a Company affiliated insurance agency, of \$56,576, \$50,467 and \$46,493 during 2001, 2000 and 1999, respectively. The bonus amount also includes \$1,176,980, \$939,830 and \$687,760 during 2001, 2000 and 1999, respectively, representing a payment of \$10 for each marketing associate who participated in the Company's "Fast Start to Success" training program that commenced in January 1997. See "Executive Compensation and Other Information-Employment Contracts and Termination of Employment and Change-in-Control Arrangements" and "Certain Relationships and Related Transactions."

Bonus to Mr. Smith consists of override commissions and other fees paid with respect to commissions earned by, and new sales associate sponsorships within, the Company's multilevel marketing sales force. The amounts indicated for Mr. Smith do not include any amounts received by Mr. Smith as a result of his equity ownership in certain entities which are not affiliated with the Company but which are engaged in the marketing of the Company's legal service memberships and earn commissions from sales of memberships. See "Certain Relationships and Related Transactions."

Bonus to Messrs. Harp and Williamson and Ms. Pinson consisted of a performance bonus based upon the achievement by the Company of certain earnings per share goals.

(2) All Other Compensation of Mr. Stonecipher includes \$5,331, \$5,660 and \$5,964 for the years 2001, 2000 and 1999, respectively, relating to the time value of premiums paid pursuant to a certain split dollar life insurance agreement that provides for such premiums to be refunded to the Company upon Mr. Stonecipher's death, and also includes \$6,409, \$6,310 and \$6,310 for the years 2001, 2000 and 1999, respectively, representing vested contributions by the Company to the Employee Stock Ownership and Thrift Plan and Trust (the "ESOP").

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

All Other Compensation of Messrs. Smith, Harp and Williamson and Ms. Pinson consists of vested contributions by the Company to the ESOP.

The following table contains information concerning the grant of stock options during the year ended December 31, 2001 under the Company's Stock Option Plan to each of the named executive officers who received option grants during such year.

Option Grants in Last Fiscal Year

Name	Individual Grants				Potential Value at Annual Rate of Price Appreciation
	Number of Securities Underlying Options Granted (1)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh) (2)	Expiration Date	5%
Harland C. Stonecipher	100,000	22.6%	\$16.46	05/25/2006	\$455,000
Randy Harp	30,000	6.8	19.20	03/01/2011	362,100
Randy Harp	50,000	11.3	16.46	05/25/2006	227,500
Kathleen S. Pinson	5,000	1.1	16.46	05/25/2006	22,750
Steve Williamson	10,000	2.3	19.20	03/01/2011	120,700
Steve Williamson	5,000	1.1	16.46	05/25/2006	22,750

(1) All options granted to the named executive officers during 2001 were granted under the Company's Stock Option Plan. The exercise price of such options is equal to 100% of the market price per share of the Common Stock on the date of grant. The options granted to Mr. Stonecipher and 50,000 of the options granted to Mr. Harp were immediately exercisable as of the date of grant as to one-fourth of the shares covered thereby and became exercisable in additional one-fourth increments on June 1, September 1, and December 1, 2001. The remaining 30,000 options granted to Mr. Harp and the 10,000 options granted to Mr. Williamson on March 1, 2001 vest and become exercisable at the rate of 20% per year and expire if not exercised ten years after the grant date. The remaining 5,000 options granted to Mr. Williamson and the options granted to Ms. Pinson become exercisable in one-half increments beginning one year after the grant date. The options expire if not exercised five years after the date of grant.

(2) Exercise price of the options must be paid in cash or, if the Board of Directors so permits, by tender of shares of Common Stock or other property, or by a combination of such means of payment.

(3) Potential realizable value is the amount that would be realized upon exercise by the named executive officer of the options immediately prior to the expiration of their respective terms, assuming the specified compound annual rates of appreciation of the Company's Common Stock over the respective terms of the options. These amounts represent assumed rates of appreciation only. Actual gains, if any, on stock option exercises depend

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

on the future performance of the Common Stock and overall market conditions. There can be no assurances that the potential values reflected in this table will be achieved.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 2001		Unexerci O Decemb
			Exercisable	Unexercisable	Exercisabl
Harland C. Stonecipher	-	-	500,000	-	\$1,309,00
Randy Harp	-	-	250,000	30,000	621,45
Kathleen S. Pinson	-	-	12,500	7,500	29,50
Steve Williamson	-	-	7,500	22,500	

(1) Value of unexercised in-the-money options at December 31, 2001 is calculated based on the market price per share of Common Stock of \$21.90 per share on December 31, 2001 less the option exercise price.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

The Company has an employment agreement with Mr. Stonecipher that commenced in January 1993, and, unless sooner terminated, expires on June 30, 2003. Under the terms of the employment agreement, Mr. Stonecipher is to receive compensation as determined by the Board of Directors but not less than \$157,755 per year. In addition to his annual salary, Mr. Stonecipher also is entitled to receive a supplemental retirement benefit in the amount of \$26,000 per year payable on the first day of the month following his termination of employment and annually thereafter until the earlier of his death or the date upon which ten such payments have been made. Mr. Stonecipher must meet certain minimal conditions subsequent to the termination of his employment in order to receive such payments. The Company's obligation pursuant to the employment agreement is subject to the continuation of a certain split dollar life insurance agreement between the Company and Shirley A. Stonecipher, Mr. Stonecipher's wife, described below. If the Company terminates the employment agreement for any reason (other than Mr. Stonecipher's death) or Mr. Stonecipher terminates the agreement for certain specified events including a change of control of the Company (as defined in the agreement), the Company is required to pay Mr. Stonecipher a lump sum payment equal to the present value (using a 3% discount rate) of the remaining salary and retirement benefits throughout the term of the contract.

Pursuant to an agreement with the Company, Mr. Stonecipher is also entitled to an override commission, payable monthly, in an amount equal to \$.025 per active membership as compensation for his efforts in assisting in the growth and development of new production for the Company and its subsidiaries. The agreement provides that the amount of the commissions shall in no event exceed

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

\$20,000 per month. The payment of such commissions to Mr. Stonecipher continues during his lifetime. The agreement requires that Mr. Stonecipher devote reasonable efforts to the generation of new membership sales for the Company. The amounts paid to Mr. Stonecipher under this agreement during the fiscal year ended December 31, 2001 are reflected in the summary compensation table set forth above. Mr. Stonecipher has deferred payments under this agreement of \$277,132 at December 31, 2001. Mr. Stonecipher also receives a portion of the annualized commission revenue of PPL Agency, Inc., which is owned by Mr. Stonecipher as a nominee for the Company. See "Certain Relationships and Related Transactions." Such amounts paid to Mr. Stonecipher are also reflected in the summary compensation table set forth above.

Commencing in January 1997, the Company implemented its "Fast Start to Success" program pursuant to which electing marketing associates may participate in Company-sponsored sales training programs, including use of a video and other training aides developed by the Company. The cost to each marketing associate for participation in the program is typically \$249, except for special promotions the Company implements from time to time. Mr. Stonecipher receives a payment of \$10 for each marketing associate who participates in the program. Such amounts paid to Mr. Stonecipher in connection with the "Fast Start to Success" program are reflected in the summary compensation table set forth above. Mr. Stonecipher has deferred payments under this agreement of \$154,650 at December 31, 2001.

In July 1984, the Company entered into a life insurance arrangement with Shirley A. Stonecipher, Mr. Stonecipher's wife, whereby the Company agreed to pay premiums on a life insurance policy covering Mr. Stonecipher. The face amount of the policy is \$600,000 and Mrs. Stonecipher is the owner and beneficiary. Mrs. Stonecipher has an agreement with the Company whereby upon Mr. Stonecipher's death, the proceeds of the policy will be paid to the Company in an amount sufficient to reimburse premiums paid to date by the Company and any supplemental retirement payments made pursuant to his employment contract. This agreement is secured by a collateral assignment of the policy proceeds.

Board of Director Interlocks and Insider Participation in Executive Compensation Decisions

The Board of Directors of the Company is responsible for establishing compensation of Harland C. Stonecipher, Chairman and Chief Executive Officer of the Company. Mr. Stonecipher establishes the cash compensation of all other executive officers. The Board of Directors does not have a standing compensation committee. Since Mr. Stonecipher's cash compensation for 2001 was determined pursuant to his employment agreement and other arrangements with the Company approved by the Board of Directors prior to 2001, the Board of Directors did not have any deliberations during 2001 relating to Mr. Stonecipher's cash compensation for such year. However, during 2001, the Board of Directors approved the grant of stock options to Mr. Stonecipher, Randy Harp, Steve Williamson and Kathleen S. Pinson, each executive officers and directors of the Company, for the purchase of 100,000, 80,000, 15,000 and 5,000 shares, respectively, under the Company's Stock Option Plan. Messrs. Stonecipher, Smith and Harp and Ms. Pinson participated in the deliberations of the Board of Directors with respect to such stock option grants.

Report On Executive Compensation

As previously indicated, the Board of Directors of the Company (the "Board") is responsible for establishing compensation of Harland C. Stonecipher, the Chairman and Chief Executive Officer. Mr. Stonecipher is responsible for establishing the cash compensation of all other executive officers including, as applicable, the negotiation of employment contracts with executive officers. The Board does not have a standing compensation committee. The Company's compensation of executives is established to provide reasonable base salaries

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

and other compensation in the form of cash and equity incentive compensation opportunities that are linked to performance of the Company and increases in shareholder value.

The base salary of Mr. Stonecipher for 2001 was as provided in his employment agreement with the Company entered into in 1993. The principal terms of his employment agreement are described elsewhere herein. See "Executive Compensation and Other Information - Employment Contracts and Termination of Employment and Change-in-Control Arrangements." The level of base salary for Mr. Stonecipher in the employment agreement was determined through negotiations with Mr. Stonecipher at the time the employment agreement was entered into, and the base salaries of the other executive officers of the Company for 2001 were determined by Mr. Stonecipher based upon his assessment of the respective executive officer's performance and potential contribution to the Company's financial and operational objectives.

Pursuant to his employment agreement, Mr. Stonecipher receives a monthly override commission of \$.025 per active membership, subject to certain limitations, and a portion of the annualized commission revenue of PPL Agency, Inc., which is owned by Mr. Stonecipher as a nominee of the Company. During 2001, Mr. Stonecipher received \$296,576 pursuant to these commission-based incentive compensation arrangements. These arrangements foster the goals of the Company's compensation policy by linking a significant portion of the chief executive officer's annual compensation to the level of revenues derived from active memberships, thereby creating strong financial incentives to the chief executive officer for the continued growth of the Company's membership base. During 2001, new membership sales increased 9% to 728,295 compared to 670,118 during 2000, and active memberships in force of 1,242,908 at December 31, 2001 increased 17% compared to 1,064,805 memberships in force at December 31, 2000. Over the last five years, the compounded growth rate of the Company's active membership base has exceeded 33% per year and earnings per share has grown from \$.08 per share to \$1.26 per share for 2001.

During 1997, the Company implemented its "Fast Start to Success" program. The "Fast Start to Success" program is a Company-sponsored field training program for the Company's marketing associates that utilizes audio, video and other training aides developed by the Company and is designed to increase new memberships sold and new sales associates recruited per participating associate. Participating associates are required to pay the Company a one-time training fee to offset the Company's direct and indirect costs incurred in developing and maintaining the program. Mr. Stonecipher receives a payment from the Company of \$10 for each marketing associate who participates in the "Fast Start to Success" program. Such payments totaled \$1,176,980 during 2001. Mr. Stonecipher was instrumental in the conception and development of the program, which the Board believes has enhanced the Company's marketing efforts and contributed to the growth of new membership sales during 2001. Mr. Stonecipher's compensation in connection with the program represents another element in the Company's incentive compensation policy designed to link significant portions of the chief executive officer's compensation with growth in the Company's membership base.

The Company maintains a Stock Option Plan (the "Plan") pursuant to which the Board may grant options to purchase Common Stock to directors and employees of the Company, including the executive officers. The exercise price of options granted under the Plan may not be less than the fair market value per share of Common Stock on the date of grant. In authorizing option awards under the Plan to executive officers, the Board considers various factors including the recommendation of the Chairman, the relative responsibilities of the optionee, the Board's subjective evaluation of the optionee's performance, and the optionee's relative equity interest in the Company in the form of stock and options. The Board granted options during 2001 to the Company's executive officers as follows: Harland C. Stonecipher - 100,000; Randy Harp - 80,000, Steve Williamson - 15,000 and Kathleen S. Pinson - 5,000. The Board considers

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

stock options to be an important element of the Company's incentive compensation policies and anticipates that additional options will be granted to certain executive officers during 2002.

The Board of Directors has not adopted a policy with respect to qualification of executive compensation in excess of \$1 million per individual for deduction under Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder. In evaluating any policy for future periods, the Board of Directors would expect to consider a number of factors, including the nature of the Company's compensatory arrangements under employment contracts or otherwise, the materiality of amounts likely to be involved and potential ramifications of any loss of flexibility to respond to unforeseeable changes in circumstances that might result from such policy.

The preceding report is presented by each of the current members of the Board of Directors.

Harland C. Stonecipher	Wilburn L. Smith	Martin H. Belsky
Kathleen S. Pinson	David A. Savula	John W. Hail
Shirley S. Stonecipher	Randy Harp	Peter K. Grunebaum
John A. Addison		

Shareholder Return Performance Graph

The following graph compares the cumulative total shareholder returns of the Company's Common Stock during the five years ended December 31, 2001 with the cumulative total shareholder returns of the Russell 2000 Index, the Media General Personal Services industry index and a selected peer group. The peer group consists of companies principally engaged in activities within the Standard Industrial Classification Code applicable to the activities of the Company (Insurance Carriers Not Elsewhere Classified) and prior to this year included the following companies: E. W. Blanch Holdings, Inc.; Enhance Financial Services Group, Inc.; Great American Financial Resources; Hallmark Financial Services, Inc.; Healthnet, Inc. and Horace Mann Educators Corporation. Since two of the six companies, E. W. Blanch Holdings, Inc. and Enhance Financial Services Group, Inc. were acquired and are no longer reporting entities, the Company has selected Media General's Personal Services industry index to use in place of the peer group. The following graph includes the remaining four companies in the peer group. The Company had initially selected this peer group because there are no comparable issuers with publicly traded securities that are engaged principally in the development, underwriting and marketing of prepaid legal service plans. For 2001 and following years, the Company will use the Media General Personal Services industry index because the peer group previously selected has become too small and the Personal Services index is the industry index which, in the Company's opinion, is the best available index to use for comparative return purposes. The comparison assumes an investment of \$100 on January 1, 1997 in each of the Company's Common Stock, the Russell 2000 Index, Media General's Personal Services industry index and the peer group and that any dividends were reinvested.

Comparison of Cumulative Total Return of Company,
Russell 2000 Index, Peer Group and Industry Index
[GRAPH APPEARS HERE]

	12/31/1996 -----	12/31/1997 -----	12/31/1998 -----	12/31/1999 -----	12 ---
Pre-Paid Legal Services, Inc.	100.00	187.33	180.82	131.51	
Peer Group	100.00	122.77	106.69	80.66	
Personal Services Industry Index	100.00	131.06	134.58	61.22	

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

Russell 2000 Index 100.00 122.34 118.91 142.21

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS
AND MANAGEMENT

The following table sets forth certain information concerning the beneficial ownership of shares of Common Stock of the Company by each person (other than directors and executive officers of the Company) known by the Company to be the beneficial owner of more than five percent of the issued and outstanding Common Stock. The information is based on Schedules 13D or 13G filed by the applicable beneficial owner with the Securities and Exchange Commission or other information provided to the Company by the beneficial owner.

Security Ownership of Certain Beneficial Owners

Name and Address of Beneficial Owner	Beneficial Ownership	
	Number of Shares	Percent of Class
Thomas W. Smith 323 Railroad Avenue Greenwich, CT 06830	4,035,501 (1)	20.2
Thomas N. Tryforos 323 Railroad Avenue Greenwich, CT 06830	2,841,000 (1)	14.2

(1) Included in the shares of Common Stock indicated as beneficially owned by Thomas W. Smith ("Smith") and Thomas N. Tryforos ("Tryforos") are 2,780,600 shares as to which they have shared voting and shared dispositive power. In addition, Smith beneficially owns 1,254,901 shares of Common Stock as to which he has sole voting and dispositive power and Tryforos beneficially owns 60,400 shares of Common Stock as to which he has sole voting and dispositive power. Of the shares indicated as beneficially owned by Smith and Tryforos, 3,135,501 and 2,780,600 shares in the aggregate, respectively, are beneficially owned in their capacities as investment managers for certain managed accounts.

The following table sets forth certain information concerning the beneficial ownership of shares of Common Stock of the Company as of March 29, 2002 by (a) each director of the Company, (b) each of the named executive officers, and (c) all of the directors and executive officers of the Company as a group.

Security Ownership of Directors and Executive Officers

	Beneficial Ownership (1)	
	Number of	Percent of

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

Name of Director or Executive Officer	Shares	-----	-----
Harland C. Stonecipher 321 East Main Street Ada, Oklahoma 74820.....	1,570,373	(2)	(3)
Shirley A. Stonecipher.....	1,112,873	(2)	(4)
Randy Harp.....	323,554	(5)	
Wilburn L. Smith.....	105,606	(6)	
Kathleen S. Pinson.....	78,013	(7)	
Peter K. Grunebaum.....	50,700	(8)	
David A. Savula.....	34,395	(9)	
John W. Hail.....	44,375	(10)	
Martin H. Belsky.....	37,150	(11)	
John A. Addison.....	12,500	(12)	
Steve Williamson.....	15,174	(13)	
All directors and executive officers as a group (11 persons).....	2,314,340	(14)	

* Less than 1%.

- (1) Unless otherwise indicated in the footnotes to the table and subject to community property laws where applicable, each of the shareholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned. The percentage of ownership for each person is calculated in accordance with rules of the Securities and Exchange Commission without regard to shares of Common Stock issuable upon exercise of outstanding stock options, except that any shares a person is deemed to own by having a right to acquire by exercise of an option are considered outstanding solely for purposes of calculating such person's percentage ownership.
- (2) Harland C. Stonecipher and Shirley A. Stonecipher are husband and wife. Included in the shares of Common Stock indicated as beneficially owned by Mr. and Mrs. Stonecipher are 1,051,525 shares as to which they have shared voting and shared dispositive power.
- (3) Includes 18,848 shares owned under the ESOP as to which Mr. Stonecipher has sole voting power, but shared dispositive power, and 500,000 shares issuable upon exercise of outstanding options.
- (4) Includes 42,500 shares issuable upon exercise of outstanding options but does not include the shares beneficially owned by Mr. Stonecipher described in Note (3) above as to which Mrs. Stonecipher shares neither voting nor dispositive power, and Mrs. Stonecipher disclaims beneficial ownership of such shares.
- (5) Includes 16,838 shares owned under the ESOP as to which Mr. Harp has sole voting power, but shared dispositive power, and 256,000 shares issuable upon exercise of outstanding options.
- (6) Includes 34,858 shares owned under the ESOP as to which Mr. Smith has sole voting power, but shared dispositive power.
- (7) Includes 18,920 shares owned under the ESOP as to which Ms. Pinson has sole voting power, but shared dispositive power, and 12,500 shares issuable upon the exercise of outstanding options. Also, includes 2,986 shares owned under the ESOP by Ms. Pinson's husband, also an employee of the Company, as to which he has sole voting power, but shared dispositive power. Ms. Pinson disclaims beneficial ownership of shares that are owned by her husband.
- (8) Includes 42,500 shares issuable upon exercise of outstanding options.

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

- (9) Includes 12,117 shares issuable upon exercise of outstanding options.
- (10) Includes 500 shares owned by a corporation that Mr. Hail controls and 42,500 shares issuable upon exercise of outstanding options.
- (11) Includes 37,000 shares issuable upon exercise of outstanding options.
- (12) Includes 12,500 shares issuable upon exercise of outstanding options.
- (13) Includes 284 shares owned under the ESOP as to which Mr. Williamson has sole voting power, but shared dispositive power, and 14,500 shares issuable upon exercise of outstanding options.
- (14) Includes 972,117 shares issuable upon exercise of outstanding options and 92,734 shares owned under the ESOP as to which the respective executive officers and directors have sole voting power, but shared dispositive power.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company's Chairman, Harland C. Stonecipher, is the owner of PPL Agency, Inc. ("Agency"). The Company has agreed to indemnify and hold harmless the Chairman for any personal losses incurred as a result of his ownership of this corporation and any income earned by Agency accrues to the Company. The Company provides management and administrative services for Agency, for which it receives specified management fees and expense reimbursements.

Agency's financial position and results of operations are included in the Company's financial statements on a combined basis. Agency earned commissions, net of amounts paid directly to its agents by the underwriter, during 2001, 2000 and 1999 of \$121,000, \$122,000 and \$121,000, respectively, through its sales of insurance products of an unaffiliated company. Agency had net income of \$16,000 and \$12,000 for the years ended December 31, 2001 and 2000, respectively and a net loss for the year ended December 31, 1999 of \$18,000 after incurring commissions earned by the Chairman of \$57,000, \$50,000 and \$49,000, respectively, and annual management fees paid to the Company of \$36,000 for 2001, 2000 and 1999.

Mr. Stonecipher and Shirley A. Stonecipher own Stonecipher Aviation LLC ("SA") and Mr. and Mrs. Stonecipher together with Wilburn L. Smith, President and a director of the Company, own S & S Aviation LLC ("S&SA"). The Company has agreed to reimburse SA and S&SA for certain expenses pertaining to trips made by Company personnel for Company business purposes using aircraft owned by SA and S&SA. Such reimbursement represents the pro rata portion of direct operating expenses, such as fuel, maintenance, pilot fees and landing fees, incurred in connection with such aircraft based on the relative number of flights taken for Company business purposes versus the number of other flights during the applicable period. No reimbursement is made for depreciation, capital expenditures or improvements relating to such aircraft. During 2001, 2000 and 1999, the Company paid \$214,000, \$264,000 and \$276,000, respectively, to SA as reimbursement for such transportation expenses. S&SA was organized during 2000, and the Company paid \$355,000 and \$372,000 to S&SA during 2001 and 2000, respectively, as reimbursement for such transportation expenses.

The Company indemnified Mr. Stonecipher for litigation expenses and settlement costs in connection with a lawsuit filed by Frank Jaques, a former director of the Company, in 1999 against Mr. Stonecipher in the District Court of Pontotoc County, Oklahoma. Mr. Jaques claimed damages relating to an agreement between Mr. Jaques and Mr. Stonecipher relating to a stock subscription agreement with the Company that Mr. Stonecipher entered into in order to obtain the approval of the Oklahoma Securities Department for the

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

Company's original intrastate public offering in 1977. The stock subscription agreement was executed by Mr. Stonecipher for the benefit of the Company in his capacity as the Chairman and founder. The Board of Directors determined that the requirements for indemnification under the Company's Bylaws had been satisfied and that Mr. Stonecipher was entitled to such indemnification. In 2000, the Company reimbursed Mr. Stonecipher \$130,000 for litigation expenses, and in 2001, the Company reimbursed him for \$1,000 in litigation expenses and \$275,000 for settlement of the case which was accrued as of December 31, 2000.

Wilburn L. Smith, President and a director of the Company, has loans from the Company made in December 1992, December 1996 and October 1998. The largest aggregate balance of the loans during the year ended December 31, 2001 was \$526,000. The outstanding balance of the loans as of December 31, 2001 was \$511,000. The loans bear annual interest at the rate of 3% in excess of the prime rate, adjusted on January 1 of each year, and are secured by Mr. Smith's commissions from the Company. Mr. Smith also owns corporations or partnerships not affiliated with the Company but engaged in the marketing of the Company's legal service memberships and which earn commissions from sales of memberships. These entities earned commissions, net of amounts passed through as commissions to their sales agents, during 2001, 2000 and 1999 of \$18,000, \$13,000 and \$14,000, respectively.

Randy Harp, Chief Operating Officer and a director of the Company, has loans from the Company made in December 2000. The largest aggregate balance of these loans during the year ended December 31, 2001 was \$441,000. The outstanding balance of these loans as of December 31, 2001 was \$441,000. These loans bear annual interest at the rate of 3% in excess of the prime rate, adjusted on January 1 of each year.

John W. Hail, a director of the Company, served as Executive Vice President, Director and Agency Director of the Company from July 1986 through May 1988 and also served as Chairman of the Board of Directors of TVC Marketing, Inc., which was the exclusive marketing agent of the Company from April 1984 through September 1985. Pursuant to agreements between Mr. Hail and the Company entered into during the period in which Mr. Hail was an executive officer of the Company, Mr. Hail receives override commissions from renewals of certain memberships initially sold by the Company during such period. During 2001, 2000 and 1999, such override commissions on renewals totaled \$92,000, \$90,000 and \$91,000, respectively. Mr. Hail also owns interests ranging from 12% to 100% in corporations not currently affiliated with the Company, including TVC Marketing, Inc., but which were engaged in the marketing of the Company's legal service memberships and which earn renewal commissions from memberships previously sold. These entities earned renewal commissions, net of amounts passed through as commissions to their sales agents, during 2001, 2000 and 1999 of \$294,000, \$313,000 and \$301,000, respectively.

David A. Savula, a director of the Company, is actively engaged as an independent contractor in the marketing of the Company's legal service memberships. During 2001, 2000 and 1999, Mr. Savula received from the Company \$1.1 million, \$936,000 and \$815,000 respectively, pursuant to a previous agreement with the Company providing for the payment to Mr. Savula of override commissions and other fees with respect to commissions earned by, and new sales associate sponsorships within, the Company's multilevel marketing sales force, as well as amounts received pursuant to his individual associate agreement.

COMPLIANCE WITH SECTION 16 REPORTING REQUIREMENTS

Section 16(a) of the Securities Exchange Act of 1934 requires directors and executive officers of the Company and persons who beneficially own more than 10% of the Company's Common Stock to file reports of ownership and changes in ownership of the Company's Common Stock with the Securities and Exchange Commission. The Company is required to disclose delinquent filings of reports by

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

such persons during 2001. Based on a review of the copies of such reports and amendments thereto received by the Company, or written representations that no filings were required, the Company believes that during 2001 all Section 16(a) filing requirements applicable to its executive officers, directors and 10% shareholders were met, except as described below.

Mr. Savula, a director of the Company did not file a Form 4 relating to one transaction for November 2000 until February 2001 and Mr. Smith, President and a director of the Company did not file a Form 4 relating to three transactions for January 2001 until March 2001.

VOTING

Directors will be elected by a plurality of the votes of the shares present in person or represented by proxy at the Annual Meeting. All other matters properly brought before the Annual Meeting, if any, will be decided by a majority of the votes cast on the matter, unless otherwise required by law

Shares represented by proxies which are marked "withhold authority" with respect to the election of any one or more nominees for election as directors will be counted for the purpose of determining the number of shares represented by proxy at the meeting. However, because directors are elected by a plurality rather than a majority of the shares present in person or represented by proxy at the Annual Meeting, proxies marked "withhold authority" with respect to any one or more nominee will not affect the outcome of the nominee's election unless the nominee receives no affirmative votes or unless other candidates are nominated for election as directors.

Shares represented by limited proxies will be treated as represented at the meeting only as to such matter or matters for which authority is granted in the limited proxy. Shares represented by proxies returned by brokers where the brokers' discretionary authority is limited by stock exchange rules will be treated as represented at the Annual Meeting only as to such matter or matters voted on in the proxies.

INDEPENDENT PUBLIC ACCOUNTANTS

The Company engaged Grant Thornton LLP as its independent accountants in September 2001. Grant Thornton LLP served as the Company's independent accountants for the year ended December 31, 2001. Representatives of Grant Thornton LLP are expected to be present at the Annual Meeting, with the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

ANNUAL REPORT TO SHAREHOLDERS

The Company's Annual Report to Shareholders for the year ended December 31, 2001, including audited financial statements, accompanies this Proxy Statement. The Annual Report is not incorporated by reference into this Proxy Statement or deemed to be a part of the materials for the solicitation of proxies.

AVAILABILITY OF ANNUAL REPORT ON FORM 10-K

A copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission is available without charge to any shareholder of the Company who requests a copy in writing from the Company, Attn.: Janice Stinson, Investor Relations, P. O. Box 145, Ada, Oklahoma 74821-0145.

PROPOSALS OF SHAREHOLDERS

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

The Board of Directors will consider properly presented proposals of shareholders intended to be presented for action at the Annual Meeting of Shareholders. Such proposals must comply with the applicable requirements of the Securities and Exchange Commission and the Company's bylaws. Under the Company's bylaws, a notice of intent of a shareholder to bring any matter before a meeting shall be made in writing and received by the Secretary of the Company not more than 150 days and not less than 90 days in advance of the annual meeting or, in the event of a special meeting of shareholders, such notice shall be received by the Secretary of the Company not later than the close of the fifteenth day following the day on which notice of the meeting is first mailed to shareholders. Every such notice by a shareholder shall set forth: (a) the name and address of the shareholder who intends to bring up any matter; (b) a representation that the shareholder is a registered holder of the Company's voting stock and intends to appear in person or by proxy at the meeting to bring up the matter specified in the notice; (c) with respect to notice of an intent to make a nomination, a description of all understandings among the shareholder and each nominee and any other person (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder and such other information regarding each nominee proposed by the shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated by the Board of Directors of the Company; and (d) with respect to notice of an intent to bring up any other matter, a description of the matter, and any material interest of the shareholder in the matter. Notice of intent to make a nomination shall be accompanied by the written consent of each nominee to serve as a director of the Company, if elected. All shareholder proposals should be sent to the Secretary of the Company at P.O. Box 145, Ada, Oklahoma 74821-0145.

A shareholder proposal submitted pursuant to Rule 14a-8 under the Securities Exchange Act of 1934 and intended to be included in the Company's proxy statement relating to the 2003 Annual Meeting must be received no later than December 28, 2002. To be considered for presentation at the 2003 Annual Meeting, although not included in the Proxy Statement for such meeting, a proposal must be received within the time period set forth in the Company's bylaws as described above. In addition, the proxy solicited by the Board of Directors for the 2003 Annual Meeting will confer discretionary authority to vote on any such shareholder proposal presented at the 2003 Annual Meeting unless the Company is provided with notice of such proposal no later than ninety days prior to the date of the 2003 annual meeting.

OTHER MATTERS

The Board of Directors of the Company does not know of any other matters to be presented for action at the Annual Meeting other than those listed in the Notice of Meeting and referred to herein. If any other matters properly come before the Annual Meeting or any adjournment thereof, it is intended that the proxy solicited hereby be voted as to any such matter in accordance with the recommendations of the Board of Directors of the Company.

YOUR VOTE IS IMPORTANT!

You can vote one of three ways:

1. Vote by Telephone.
2. Vote by Internet.
3. Vote by Mail.

VOTE BY TELEPHONE

Your Telephone vote is quick, easy and immediate. Just follow these easy steps:

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

1. Read the accompanying Proxy Statement
2. Using a Touch-Tone Telephone, call Toll Free 1-800-758-6973 and follow the instructions.
3. When instructed, enter the Control Number, which is printed on the lower right-hand corner of the back-side of your proxy card.
4. Follow the simple recorded instructions.

Please note that all votes cast by Telephone must be made prior to 5:00 p.m. Central Time, May 29, 2002

Your telephone vote authorizes the named proxies to vote your shares to the same extent as if you marked, signed, dated and returned the proxy card.

If you vote by telephone, please do not return your proxy by mail.

VOTE BY INTERNET

Your Internet vote is quick, convenient and your vote is immediately submitted. Just follow these easy steps:

1. Read the accompanying Proxy Statement
2. Visit our Internet voting site at <http://www.eproxyvote.com/ppd> and follow

the instructions on the screen.

Please note that all votes cast by Internet must be submitted prior to 5:00 p.m. Central Time, May 29, 2002.

Your Internet vote authorizes the named proxies to vote your shares to the same extent as if you marked, signed, dated and returned the proxy card.

If you vote by Internet, please do not return your proxy by mail.

VOTE BY MAIL

To vote by mail, read the accompanying Proxy Statement then complete, sign and date the proxy card below. Detach the card and return it in the envelope provided herein.

IF YOU ARE NOT VOTING BY TELEPHONE OR INTERNET, DETACH PROXY CARD AND RETURN

PROXY

PRE-PAID LEGAL SERVICES, INC.

Proxy Solicited on Behalf of the Board of
Directors Annual Meeting of the Shareholders to be held
on Friday, May 31, 2002

The undersigned shareholder of Pre-Paid Legal Services, Inc., an Oklahoma corporation (the "Company"), hereby acknowledges receipt of the Notice of Annual Meeting of Shareholders and Proxy Statement, each dated April 12, 2002, and hereby appoints Randy Harp and Kathleen S. Pinson, or either of them, as proxies and attorneys-in-fact, with full power to each of substitution, on behalf and in the name of the undersigned, to represent the undersigned at the 2002 Annual Meeting of Shareholders of the Company, to be held in the Seminar Center at Pontotoc Area VoTech School at 601 West 33rd Street in Ada, Oklahoma, on Friday, May 31, 2002, at 1:00 p.m., local time, and at any adjournment thereof, and to vote all shares of Common Stock of the Company which the undersigned would be entitled to vote if then and there personally present, on the matters set forth below.

(1) Election of directors:

_____ FOR all nominees listed below (except as indicated).

Edgar Filing: PRE PAID LEGAL SERVICES INC - Form DEF 14A

____ WITHHOLD AUTHORITY to vote for all nominees listed below.

If you wish to withhold authority to vote for any individual nominee, strike a line through that nominee's name in the list below.

(01) Harland C. Stonecipher (02) Wilburn L. Smith (03) Martin H. Belsky

(2) In their discretion, upon such matters as may properly come before the meeting or any adjournment or adjournments thereof.

PLEASE SIGN ON THE REVERSE SIDE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.

THIS PROXY WILL BE VOTED AS DIRECTED OR, IF NO CONTRARY DIRECTION IS INDICATED, WILL BE VOTED "FOR" THE NOMINEES LISTED IN ITEM 1. IF ANY OTHER MATTERS ARE BROUGHT BEFORE THE MEETING OR IF A NOMINEE FOR ELECTION AS A DIRECTOR NAMED IN THE PROXY STATEMENT FOR ELECTION AS A DIRECTOR IS UNABLE TO SERVE OR FOR GOOD CAUSE WILL NOT SERVE, THE PROXY WILL BE VOTED IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE BOARD ON SUCH MATTERS OR FOR SUCH SUBSTITUTE NOMINEES AS THE BOARD MAY RECOMMEND.

DATED: _____, 2002

Printed Name(s) of Shareholder(s)

Signature(s): -----

(Please sign exactly as name appears on the proxy card. If shares are held jointly, each holder should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person).

APPENDIX TO PROXY STATEMENT OF PRE-PAID LEGAL SERVICES, INC.
CONTAINING SUPPLEMENTAL INFORMATION REQUIRED TO BE
PROVIDED TO THE SECURITIES AND EXCHANGE COMMISSION

The following is information required to be provided to the Securities and Exchange Commission in connection with the Definitive Proxy Materials of Pre-Paid Legal Services, Inc. (the "Company") in connection with the 2002 Annual Meeting of Shareholders of the Company. This information is not deemed to be a part of the Proxy Statement and will not be provided to shareholders in connection with the Proxy Statement.

1. The Company anticipates that the definitive Proxy Materials will be mailed to the shareholders on or about April 12, 2002.