

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

PRE PAID LEGAL SERVICES INC
Form 10-K/A
June 30, 2003

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, 2002

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 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 the filing: As of March 7, 2003 - \$203,210,000.

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act) Yes [X] No []

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: As of June 30, 2002 - \$285,577,000

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: As of March 7, 2003 there were 17,866,510 shares of Common Stock, par value \$.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE.

Portions of the Company's definitive proxy statement for its 2003 annual meeting of shareholders are incorporated into Part III of this Form 10-K by reference.

The undersigned registrant hereby amends the following items:

Part IV, Item 15 - "Exhibits, Financial Statement Schedules, and Reports on Form 8-K" is amended (i) to include as Exhibit 99.3 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, 2002, 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 the consent of Grant Thornton LLP, respectively relating to the use of their reports which are included as part of Exhibit 99.3.

The full text of Item 15 and the Exhibit Index, as amended, referred to therein are as set forth below.

ITEM 15. 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 39 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: June 30, 2003

By: /s/ Randy Harp

Randy Harp
Chief Operating Officer

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

CERTIFICATIONS

I, Harland C. Stonecipher, Chief Executive Officer, certify that:

- (1) I have reviewed this amendment to the annual report on Form 10-K of Pre-Paid Legal Services, Inc.;
- (2) Based on my knowledge, this amendment to the annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the annual report;
- (3) Based on my knowledge, the financial statements, and other financial information included in the annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this amendment to the annual report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) Presented in this amendment to the annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- (6) The registrant's other certifying officer and I have indicated in this amendment to the annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant

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

deficiencies and material weaknesses.

Date: June 30, 2003

/s/ Harland C. Stonecipher

Harland C. Stonecipher
Chairman, Chief Executive Officer and
President

CERTIFICATIONS, continued

I, Steve Williamson, Chief Financial Officer, certify that:

- (1) I have reviewed this amendment to the annual report on Form 10-K of Pre-Paid Legal Services, Inc.;
- (2) Based on my knowledge, this amendment to the annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by the annual report;
- (3) Based on my knowledge, the financial statements, and other financial information included in the annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this amendment to the annual report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) Presented in this amendment to the annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) Any fraud, whether or not material, that involves management or other

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

employees who have a significant role in the registrant's internal controls; and

- (6) The registrant's other certifying officer and I have indicated in this amendment to the annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 30, 2003

/s/ Steve Williamson

Steve Williamson
Chief Financial Officer

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)

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

- *10.7 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)
- 10.8 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)
- 10.9 Loan agreement dated June 11, 2002 between Bank of Oklahoma, N.A. and the Company (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the six-months ended June 30, 2002)
- 10.10 Security agreement dated June 11, 2002 between Bank of Oklahoma, N.A. and the Company (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the six months ended June 30, 2002)
- 10.11 Form of Mortgage dated July 23, 2002 between Bank of Oklahoma, N.A. and the Company (Incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q for the six months ended June 30, 2002)
- 10.12 Demand Note of Randy Harp dated April 14, 2002 in favor of the Company
- 10.13 Amendment No. 2 to New Business Generation Agreement between the Company and Harland C. Stonecipher effective January, 1990
- *10.14 Deferred compensation plan effective November 6, 2002
- 21.1 List of Subsidiaries of the Company
- 23.1 Consent of Grant Thornton LLP
- 23.2 Consent of Grant Thornton LLP relating to report concerning plan financial information included as part of Exhibit 99.3
- 99.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.3 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, 2002

* 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 27, 2003, 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, 2002, included in this Amendment No. 1 on Form 10-K/A of Pre-Paid Legal Services, Inc. for the year ended December 31, 2002. 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 27, 2003

Exhibit 99.1

CERTIFICATION

Pursuant to 18 U.S.C. ss. 1350, the undersigned officer of Pre-Paid Legal Services, Inc. (the "Company"), hereby certifies that the Company's amendment to the Annual Report on Form 10-K for the year ended December 31, 2002 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan and Trust.

Date: June 30, 2003

/s/ Harland C. Stonecipher

Harland C. Stonecipher
Chairman, Chief Executive Officer and
President

The foregoing certification is being furnished solely pursuant to 18 U.S.C.ss.1350.

Exhibit 99.2

CERTIFICATION

Pursuant to 18 U.S.C. ss. 1350, the undersigned officer of Pre-Paid Legal Services, Inc. (the "Company"), hereby certifies that the Company's amendment to the Annual Report on Form 10-K for the year ended December 31, 2002 (the

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

"Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan and Trust.

Date: June 30, 2003

/s/ Steve Williamson

Steve Williamson
Chief Financial Officer

The foregoing certification is being furnished solely pursuant to 18 U.S.C.ss.1350.

Exhibit 99.3 - 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, 2002

Financial statements and report of independent certified public accountants Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan and Trust December 31, 2002 and 2001

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

SUPPLEMENTAL SCHEDULES

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

SCHEDULE H, LINE 4j--REPORTABLE TRANSACTIONS

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

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 statements of net assets available for benefits of Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan and Trust as of December 31, 2002 and 2001, and the related statements of changes in net assets available for benefits for the years 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 audits.

We conducted our audits 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 audits provide 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, 2002 and 2001, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. 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 audits 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 27, 2003

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

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

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

December 31,

	20

ASSETS	
Cash and cash equivalents	\$ 377
Investments, at fair value	
Pre-Paid Legal Services, Inc. common stock	5,177
Participant-directed mutual funds	872
Participant notes	48
Receivables	
Employer contributions	220
Participants' elective deferrals	7

NET ASSETS AVAILABLE FOR BENEFITS	\$6,704

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31,

	20

Additions	
Employer contributions (Pre-Paid Legal Services, Inc. common stock)	\$ 220
Participant contributions	420
Interest and dividend income	19
Net appreciation in fair value of investments	821

Total additions	1,482
Deductions	
Benefits paid to participants	295
Net depreciation in fair value of investments	

Total deductions	295

NET INCREASE (DECREASE) IN NET ASSETS	1,186
Net assets available for benefits at beginning of year	5,518

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

Net assets available for benefits at end of year

\$6,704

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2002 and 2001

NOTE A - DESCRIPTION OF PLAN

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 (the "Committee") of two employees appointed by the Company. The Committee also serves as the Plan's Trustee and Investment Manager.

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.

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 account and the vested portion of their Company Contribution Account 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 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 his/her employment date.

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 year. The Company's contribution may be paid to the Trustee either in cash, qualified employer securities or in other property. In 2002 and 2001, 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

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

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:

NOTE A - DESCRIPTION OF PLAN - CONTINUED

Years of service on first day of Plan year -----	Matching percentages -----
0 - 5	50%
6 - 10	75%
11 or more	100%

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 (\$11,000 and \$10,500 in 2002 and 2001, respectively) 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.

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%
1 but less than 2	20%	80%
2 but less than 3	40%	60%
3 but less than 4	60%	40%

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

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 B - SUMMARY OF ACCOUNTING POLICIES

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 which may not be federally insured. The Plan has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash and cash equivalents. 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. The Plan presents in the statements of changes in net assets available for benefits, the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments.

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 participants' vested interest in the Plan, bear interest and are repayable based upon rates and terms set forth in the Plan. Participant notes are valued at cost which approximates fair value.

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 2002 and 2001 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 benefits.

NOTE C - INVESTMENTS

At December 31, 2002 and 2001, the Plan held 197,622 and 187,614 shares, respectively, of the Company's common stock with a cost of \$1,940,190 and \$1,544,034, 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, 2002 and 2001 were participant-directed investments of \$450,634 and \$372,802, 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 \$377,905 and \$296,455 represented 5.64% and 5.37% of net assets available for benefits at December 31, 2002 and 2001, respectively.

The following table presents the net appreciation (depreciation) (including gains and losses on investments bought and sold, as well as held during the year) by type of investment for the years ended December 31:

	200

Mutual funds	\$ (53,
Corporate common stock - Pre-Paid Legal Services, Inc.	874,

	\$ 821,

NOTE D - NONPARTICIPANT-DIRECTED INVESTMENTS

Information regarding the Plan's nonparticipant-directed investment in the Company's common stock at December 31, 2002 and 2001 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) is as follows for the years ended December 31:

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

	200
Net investment gain (loss)	\$ 87
Contributions	
Employer	22
Employee	42
Benefits paid to participants	(29)
Transfers from (to) participant-directed investments, net	
	\$1,23

NOTE E - TAX STATUS

A favorable determination letter dated June 24, 2002 was received from the Internal Revenue Service indicating that the Plan, as amended through July 1, 2001, 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 further 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 2002 consisted of 10,209 shares of the Company's common stock and cash of \$54,313. Distributions made in 2001 consisted of 1,089 shares of the Company's common stock and cash of \$134,717.

Former participants who terminated employment during 2002 and had not yet received distribution of their account at December 31, 2002 will receive distribution in 2003. The balance due former participants at December 31, 2002 included 88 shares of the Company's common stock and cash of \$640. The balance due former participants at December 31, 2001 included 270 shares of the Company's common stock and cash of \$2,000.

SUPPLEMENTAL SCHEDULES

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

December 31, 2002

 (a) (b) (c) (d) (e)

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

Identity of issuer, borrower, lessor or similar party; description of investment	Units	Cos
Corporate common stock		
*Pre-Paid Legal Services, Inc.	197,622 shares	\$1,940
Short-term funds		
Federated Investors		
Automated Cash Management Trust SS	450,634 units	450
Merrill Lynch - Money Funds		
CMA Government Securities Fund	377,905 units	377
American Funds		
U.S. Treasury Money Fund of America	230,266 units	230
Morgan Stanley Dean Witter		
Limited Duration US Treasury Ex B	12,483 units	123
Liquid Asset Fund	1 unit	
Vanguard Group		
Health Care Fund	662 units	66
500 Index Fund	38 units	4

		1,253
Participant notes, interest from 6.75% to 7%, maturing at various dates through 2016		
		48

		\$3,242

* Party-in-interest

SCHEDULE H, LINE 4j--REPORTABLE TRANSACTIONS

Year ended December 31, 2002

(a)	(b)	(c)	(d)	(e)	(f)
Identity of party involved	Description of asset	Purchase price	Selling price	Lease rental	Expense incurred with transaction
-----	-----	-----	-----	-----	-----
*Pre-Paid Legal Services, Inc.	Common stock, 8 purchases	\$513,447	\$ -	\$ -	\$ -

* Party in interest