

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

PRE PAID LEGAL SERVICES INC
Form 10-K/A
June 29, 2006

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, 2005

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.)

One Pre-Paid Way
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 if registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 .

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer Accelerated filer Non-accelerated file

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes 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, 2005 -\$456,454,000

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: As of February 17, 2006 there were 15,480,767 shares of Common Stock, par value \$.01 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE.

Portions of our definitive proxy statement for its 2006 annual meeting of shareholders are incorporated into Part III of this Form 10-K by reference.

The undersigned registrant hereby amends the following items, financial statements, exhibits of other portions of its Annual Report on Form 10-K pursuant to Section 13 of the Securities and Exchange Act of 1934 for the fiscal year ended December 31, 2005, as set forth below and in the pages attached hereto.

Part IV, Item 15 - "Exhibits, Financial Statement Schedules" is amended (i) to correct typographical error in Exhibit 23.1 for previous date error; (ii) to include as Exhibit 99.1 the attached financial information relating to The Employee Stock Option Ownership and Thrift Plan ("Plan"), as required by Form 11-K, for the fiscal year of the Plan ended December 31, 2005, which is filed as an exhibit pursuant to Rule 15d-21 under the Securities Exchange Act of 1934, and (iii) 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 99.1.

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.

(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 41 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.

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.

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

PRE-PAID LEGAL SERVICES, INC.

Date: June 29, 2006

By: /s/ Randy Harp

Randy Harp
Chief Operating Officer

INDEX TO EXHIBITS

| Exhibit No. ----- | Description ----- |
|----------------------|--|
| 3.1 | Restated Certificate of Incorporation of the Company (Incorporated by reference to Exhibit 3.1 of our Annual Report on Form 10-K for the year ended December 31, 2004) |
| 3.2 | Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.1 of our Report on Form 10-Q for the period ended June 30, 2003) |
| *10.1 | Employment Agreement effective January 1, 1993 between the Company and Harland C. Stonecipher (Incorporated by reference to Exhibit 10.1 of our 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 our 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 our 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 our 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 our Annual Report on Form 10-KSB for the year ended December 31, 1992) |
| *10.6 | Amendment No. 2 to New Business Generation Agreement between the Company and Harland C. Stonecipher effective January, 1990 (Incorporated by reference to Exhibit 10.13 of our Annual Report on Form 10-K for the year ended December 31, 2002) |
| *10.7 | Stock Option Plan, as amended effective May 2003 (Incorporated by reference to Exhibit 10.7 of our Annual report on Form 10-K for the year ended December 31, 2004) |
| 10.8 | Loan agreement dated June 11, 2002 between Bank of Oklahoma, N.A. and the Company (Incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the six-months ended June 30, 2002) |

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

- 10.9 Security agreement dated June 11, 2002 between Bank of Oklahoma, N.A. and the Company (Incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the six months ended June 30, 2002)
- 10.10 Form of Mortgage dated July 23, 2002 between Bank of Oklahoma, N.A. and the Company (Incorporated by reference to Exhibit 10.3 of our Quarterly Report on Form 10-Q for the six months ended June 30, 2002)
- *10.11 Deferred compensation plan effective November 6, 2002 (Incorporated by reference to Exhibit 10.14 of our Annual Report on Form 10-K for the year ended December 31, 2002)
- 10.12 Loan agreement dated September 19, 2003 between Registrant and Bank of Oklahoma, N.A., Comerica Bank and First United Bank & Trust (Incorporated by reference to Exhibit 10.1 of our Report on Form 10-Q for the period ended September 30, 2003)
- 10.13 Aircraft purchase agreement dated December 9, 2004 by and between S&S Aviation, LLC and the Company (Incorporated by reference to Exhibit 10.13 of our Annual Report on Form 10-K for the year ended December 31, 2004)
- 10.14 Aircraft purchase agreement dated December 9, 2004 by and between Harland C. Stonecipher and/or Shirley A. Stonecipher and Stonecipher Aviation, LLC and the Company (Incorporated by reference to Exhibit 10.14 of our Annual Report on Form 10-K for the year ended December 31, 2004)
- 10.15 Assignment and Assumption of Lease dated December 20, 2004 between Harland C. and Shirley Stonecipher and the Company (Incorporated by reference to Exhibit 10.15 of our Annual Report on Form 10-K for the year ended December 31, 2004)
- *10.16 Amended Deferred Compensation Plan effective January 1, 2005 (Incorporated by reference to Exhibit 10.16 of our Annual Report on Form 10-K for the year ended December 31, 2004)
- 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 99.1
- 31.1 Certification of Harland C. Stonecipher, Chairman and Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 31.2 Certification of Steve Williamson, Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
- 32.1 Certification of Harland C. Stonecipher, Chairman and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350
- 32.2 Certification of Steve Williamson, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350
- 99.1**Financial information relating to the Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan, as required by Form 11-K for the fiscal year of the plan ended December 31, 2005

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

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

** Filed herewith. All other Exhibits have been previously filed.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated February 23, 2006, accompanying the consolidated financial statements and schedule and management's assessment of the effectiveness of internal control over financial reporting included in the Annual Report of Pre-Paid Legal Services, Inc. on Form 10-K for the year ended December 31, 2005. We hereby consent to the incorporation by reference of said reports in the Registration Statements of Pre-Paid Legal Services, Inc. on Forms S-8 (File No. 333-120403, effective November 12, 2004, File No. 33-82144, effective July 28, 1994, File No. 33-62663, effective September 14, 1995, File No. 333-53183, effective May 20, 1998 and File No. 333-38386, effective June 1, 2000).

/s/ GRANT THORNTON LLP

Oklahoma City, Oklahoma
February 23, 2006

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated June 26, 2006, accompanying the financial statements and supplemental schedules of the Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan for the year ended December 31, 2005, included in this Amendment No. 1 on Form 10-K/A of Pre-Paid Legal Services, Inc. for the year ended December 31, 2005. 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).

/s/ GRANT THORNTON LLP

Oklahoma City, Oklahoma
June 26, 2006

EXHIBIT 99.1

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

Financial information relating to the Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan, as required by Form 11-K for the fiscal year of the plan ended December 31, 2005

C O N T E N T S

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Report of Independent Registered Public Accounting Firm

Trustee and Participants

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

We have audited the accompanying statements of net assets available for benefits of Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan as of December 31, 2005 and 2004, 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial

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

reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 as of December 31, 2005 and 2004, 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.

/s/ GRANT THORNTON LLP

Oklahoma City, Oklahoma
June 26, 2006

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

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

December 31,

ASSETS

Investments, at fair value

Pre-Paid Legal Services, Inc. common stock

Participant-directed mutual funds

200

\$ 7,133

2,641

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

| | |
|-----------------------------------|----------|
| Common collective trust funds | 443 |
| Money market funds | 9 |
| Participant notes | 116 |
| Receivables | |
| Employer contributions | 445 |
| Dividends receivable | 55 |
| Cash and cash equivalents | |
| | ----- |
| Total assets | 10,845 |
| LIABILITIES | |
| Accounts payable | 9 |
| | ----- |
| NET ASSETS AVAILABLE FOR BENEFITS | \$10,836 |
| | ===== |

The accompanying notes are an integral part of these statements.

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31,

| | | |
|--|----|----------|
| | | 200 |
| | | ----- |
| Additions to net assets attributed to | | |
| Employer contributions | \$ | 445 |
| Participant contributions | | 617 |
| Interest and dividend income | | 220 |
| Net appreciation in fair value of investments | | 271 |
| | | ----- |
| Total additions | | 1,553 |
| Deductions from net assets attributed to | | |
| Benefits paid to participants | | 254 |
| Administrative fees | | 1 |
| | | ----- |
| NET INCREASE IN NET ASSETS | | 1,298 |
| Net assets available for benefits at beginning of year | | 9,537 |
| | | ----- |
| Net assets available for benefits at end of year | | \$10,836 |
| | | ===== |

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

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2005 and 2004

NOTE A - DESCRIPTION OF PLAN

The Pre-Paid Legal Services, Inc. Employee Stock Ownership and Thrift Plan (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 three employees appointed by the Company. The Committee also served as the Plan's Trustee and Investment Manager until November 1, 2004 when the Company amended and restated the Plan to provide for appointment by the Committee of outside entities to assume the duties of both the Investment Manager and Trustee. The 401(k) Company was appointed Investment Manager. Effective November 1, 2004, the Employer and Nationwide Trust Company, FSB ("Nationwide") entered into a Trust Agreement whereby Nationwide became Plan Trustee.

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 Trustee may acquire, hold and dispose of all cash and investments, including common and preferred stock of the Company in accordance with the Committee's written investment policy. Participants may direct the investment of 25% of their Elective Deferral accounts to any one or more of the investment funds designated by the Committee as permissible under the written investment policy. Participants who have attained the age of 55 have the right to make an election to direct the investment of up to 100% of their deferred compensation account and the vested portion of their Company Contribution Account in one or more of those permissible funds.

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 the first day of the month 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

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

securities or in other property.

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

| Years of service on first day of Plan year | Matching percentages |
|--|-------------------------|
| 0-3 | 50% |
| 4-5 | 75% |
| 6 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 (\$14,000 and \$13,000 in 2005 and 2004, 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% |

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

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

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

Upon termination of a participant's employment with the Company, the nonvested portion of the Company contribution is forfeited. Forfeitures are used to reduce future Company contributions. At December 31, 2005, forfeited nonvested accounts totaled approximately \$5,000.

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. Dividends are recorded on the ex-dividend date.

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

Participant notes are approved by the Committee and cannot be made for an amount less than \$1,040 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'

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

vested interest in the Plan, bear interest and are repayable based upon rates and terms set forth in the Loan Policy. 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.

6. Expenses

The Company elected to pay substantially all of the Plan's administration expenses in 2005 and 2004 although it is not obligated to do so. Any expenses not paid by the Company are be paid by the Plan and totaled \$1,200 for 2005.

7. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of 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

The following presents investments that represent 5% or more of the Plan's net assets:

| | |
|---|------------------|
| Non-participant directed investments | 200 |
| Common stock - Pre-Paid Legal Services, Inc. (186,684 and 170,664 shares, respectively) | ----- \$7,133 |
| Participant directed investments | |
| Washington Mutual Investors Fund/R4 (21,333 and 19,263 units, respectively) | 656 |

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:

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

| | |
|--|------|
| Corporate common stock - Pre-Paid Legal Services, Inc. | \$15 |
| Mutual funds | 11 |
| | \$27 |

NOTE D - NONPARTICIPANT-DIRECTED INVESTMENTS

Information regarding the Plan's nonparticipant-directed investment in the Company's common stock at December 31, 2005 and 2004 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:

| | |
|---|--------|
| | 200 |
| | ----- |
| Net investment gain and interest income | \$ 171 |
| Contributions | |
| Employer | 341 |
| Employee | 445 |
| Benefits paid to participants | (255) |
| Transfers (to) from participant-directed investments, net | 8 |
| | ----- |
| | \$ 711 |
| | ===== |

<

NOTE E - TAX STATUS

A favorable determination letter dated November 16, 2005 was received from the Internal Revenue Service indicating that the Plan, as amended through November 1, 2004, 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. Former participants who have elected to diversify all or a portion of their Plan accounts into mutual fund investments will receive a distribution of mutual fund shares or cash. Distributions made in 2005 consisted of cash of \$254,177. Distributions made in 2004 consisted of 1,084 shares of the Company's common stock and cash of \$858,361.

Former participants who terminated employment during 2005 and had not yet

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

received distribution of their account at December 31, 2005 will receive distribution in 2006. The balance due former participants at December 31, 2005 included cash of \$54,944. The balance due former participants at December 31, 2004 included 1,132 shares of the Company's common stock and cash of \$24,166.

<

SUPPLEMENTAL SCHEDULES

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

SCHEDULE H, LINE 4i--SCHEDULE OF ASSETS (HELD AT END OF YEAR)

December 31, 2005

| (a) | (b) | (c) |
|---|---|-------------------|
| Identity of issuer, borrower, lessor, or similar party | Description of investment including maturity date rate of interest, collateral, par, or maturity value | |
| *Pre-Paid Legal Services, Inc. Common Stock | Common Stock, 186,684.000 shares/units | |
| Federated Capital Reserve | Money Market Funds, 9,360.980 shares/units | |
| SEI Stable Asset | Common Collective Trust Fund, 421,942.373 shares/units | |
| American Balanced Fund/R4 | Mutual Funds, 11,334.475 shares/units | |
| Bond Fund of America/R4 | Mutual Funds, 37,201.130 shares/units | |
| EuroPacific Growth Fund/R4 | Mutual Funds 11,020.262 shares/units | |
| Growth Fund of America/R4 | Mutual Funds 17,654.619 shares/units | |
| Vanguard Small Cap Growth Index Fund | Mutual Funds 5,374.669 shares/units | |
| Vanguard Small Cap Value Index/Inv | Mutual Funds 14,678.735 shares/units | |
| Washington Mutual Investors Fund/R4 | Mutual Funds 21,333.594 shares/units | |
| *Participant Loans | Participant loans, maturity dates various thru 07/2016; interest rates vary between 5.76% and 9.25% | |
| | | Total Investments |
| *Party-in-interest | | |
| **Cost not required for participant-directed investments | | |

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

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

SCHEDULE H, LINE 4j--REPORTABLE TRANSACTIONS

Year ended December 31, 2005

| (a) | (b) | (c) | (d) | (e) | (f) Expense incurred with transaction | (g) |
|-----------------------------------|-------------------------------|-------------------|------------------|-----------------|---|------------|
| Identity of party involved | Description of asset | Purchase price | Selling price | Lease rental | | Cost as |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| *Pre-Paid Legal Services, Inc. | Common stock, 59 purchases | \$820,953 | \$ - | \$ - | \$ - | \$82 |

* Party in interest