



**GEORGE DALE**  
Commissioner of Insurance  
State Fire Marshal

**LEE HARRELL**  
Deputy Commissioner of Insurance

**STATE OF MISSISSIPPI**  
Mississippi Insurance Department

501 N. West Street  
1001 Woolfolk Building (39201)  
Post Office Box 79  
Jackson, Mississippi 39205-0079  
(601) 359-3569  
<http://www.doi.state.ms.us>

June 6, 2007

**CERTIFIED MAIL**  
**RETURN RECEIPT REQUESTED**

Mr. Randy Harp, President  
National Pre-Paid Legal Services of Mississippi, Inc.  
One Pre-Paid Way  
Ada, OK 74820

**RE: Report of Examination as of December 31, 2005**

Dear Mr. Harp:

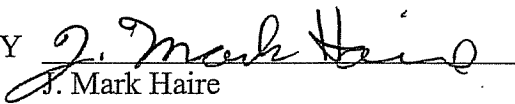
In accordance with Miss. Code Ann. §§ 83-1-27, 83-5-201 et seq. and 83-49-27 (Rev. 1999), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

GEORGE DALE  
COMMISSIONER OF INSURANCE

BY   
J. Mark Haire  
Special Assistant Attorney General

GD/JMH/bs  
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE  
OF THE STATE OF MISSISSIPPI**

**IN RE: REPORT OF EXAMINATION OF NATIONAL  
PRE-PAID LEGAL SERVICES OF MISSISSIPPI, INC.      CAUSE NO. 06-5379**

**ORDER**

**THIS CAUSE** came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. §§ 83-1-27, 83-5-201 et seq. and 83-49-27 (Rev. 1999). The Commissioner, having fully considered and reviewed the Report of Examination, together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

**JURISDICTION**

**I.**

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. §§ 83-1-27, 83-5-201 et seq. and 83-49-27 (Rev. 1999).

**II.**

National Pre-Paid Legal Services of Mississippi, Inc. is domiciled in the State of Georgia, and was granted a Certificate of Authority to write pre-paid legal contracts in the State of Mississippi effective December 1, 1983.

**FINDINGS OF FACT**

**III.**

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. §§ 83-1-27, 83-5-201 et seq. and 83-49-27 (Rev. 1999), called for an examination of National Pre-Paid Legal

Services of Mississippi, Inc. and appointed Brian Spong, Examiner-In-Charge, to conduct said examination.

#### IV.

That on or about December 4, 2006, the draft Report of Examination concerning National Pre-Paid Legal Services of Mississippi, Inc. for the period of January 1, 2003, through December 31, 2005, was submitted to the Department by the Examiner-In-Charge, Brian Spong.

#### V.

That on or about January 10, 2007, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report and allowed the Company a 30-day period to submit any rebuttal to the draft report. The Department received the Company's response on or about March 7, 2007, and in response thereto, minor revisions were made to the Draft Report.

### CONCLUSIONS OF LAW

#### VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 1999), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

**IT IS, THEREFORE, ORDERED**, after reviewing the Report of Examination, the Company's rebuttal, and all relevant examiner work papers, that the Report of Examination of National Pre-Paid Legal Services of Mississippi, Inc., attached hereto as Exhibit "A", should be and same is hereby adopted as final.

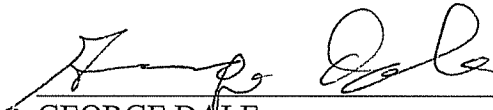
**IT IS FURTHER ORDERED** that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

**IT IS FURTHER ORDERED** that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential information for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999).

**IT IS FURTHER ORDERED**, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 1999), that within thirty (30) days of the issuance of the adopted report, National Pre-Paid Legal Services of Mississippi, Inc. shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

**IT IS FURTHER ORDERED** that National Pre-Paid Legal Services of Mississippi, Inc. take the necessary actions and implement the necessary procedures to properly and promptly comply with all recommendations contained in the Report of Examination.

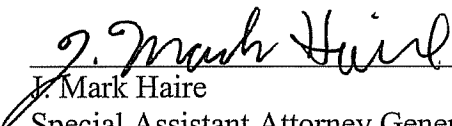
**SO ORDERED**, this the 6<sup>th</sup> day of June, 2007.

  
\_\_\_\_\_  
GEORGE DALE  
COMMISSIONER OF INSURANCE  
STATE OF MISSISSIPPI

**CERTIFICATE OF MAILING**

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 6<sup>th</sup> day of June, 2007, to:

**Mr. Randy Harp, President  
National Pre-Paid Legal Services of Mississippi, Inc.  
One Pre-Paid Way  
Ada, OK 74820**

  
\_\_\_\_\_  
J. Mark Haire  
Special Assistant Attorney General

J. Mark Haire  
Special Assistant Attorney General  
Counsel for the Mississippi Department of Insurance  
Post Office Box 79  
Jackson, MS 39205-0079  
(601) 359-3577  
Miss. Bar No. 2065



# **Mississippi Insurance Department**

## **Report of Examination**

**of**

**National Pre-Paid Legal Services of Mississippi, Inc.**

**One Pre-Paid Way  
Ada, Oklahoma 74820**

**As of December 31, 2005**

**NATIONAL PRE-PAID LEGAL SERVICES OF MISSISSIPPI, INC.  
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EXAMINER'S AFFIDAVIT AS TO STANDARDS AND  
PROCEDURES USED IN AN EXAMINATION

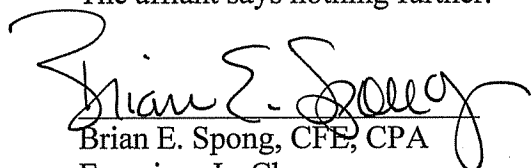
State of Mississippi,

County of Rankin,

Brian E. Spong, CFE, CPA, being duly sworn, states as follows:

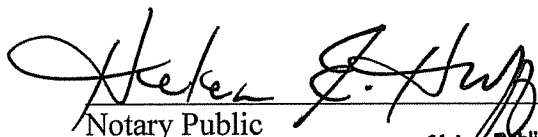
1. I have authority to represent the State of Mississippi in the examination of National Pre-Paid Legal Services of Mississippi, Inc. as of December 31, 2005.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.
3. I have prepared the examination report and working papers, and the examination of National Pre-Paid Legal Services of Mississippi, Inc., as of December 31, 2005, was performed in a manner consistent with the standards and procedures required by the Mississippi Insurance Department.

The affiant says nothing further.

  
Brian E. Spong, CFE, CPA  
Examiner-In-Charge

Subscribed and sworn before me by Brian Spong on May 2, 2007.

(SEAL)

  
Notary Public

My commission expires .....

Notary Public State of Mississippi At Large  
My Commission Expires: December 9, 2009  
Bonded Thru Heiden, Brooks & Garland, Inc.





**GEORGE DALE**  
Commissioner of Insurance  
State Fire Marshal

**LEE HARRELL**  
Deputy Commissioner of Insurance

**STATE OF MISSISSIPPI**  
Mississippi Insurance Department

501 N. West Street  
1001 Woolfolk Building (39201)  
Post Office Box 79  
Jackson, Mississippi 39205-0079  
(601) 359-3569  
<http://www.doi.state.ms.us>

November 3, 2006

Honorable George Dale  
Commissioner of Insurance  
State Fire Marshal  
Mississippi Insurance Department  
501 N. West Street  
1001 Woolfolk Building (39201)  
Post Office Box 79  
Jackson, Mississippi 39205-0079

Dear Commissioner Dale:

Pursuant to your instructions and authorization, and in compliance with statutory provisions, an examination, as of December 31, 2005, has been conducted of the affairs and financial condition of:

**NATIONAL PRE-PAID LEGAL SERVICES OF MISSISSIPPI, INC.**

Home Office:  
One Pre-Paid Way  
Ada, Oklahoma 74820

The examination was conducted in accordance with Miss. Code Ann. §83-1-27 and §83-49-27 et seq., and was performed at the Mississippi Insurance Department (MID) and National Pre-Paid Legal Services of Mississippi, Inc.'s home office. The report of examination is herewith submitted for your review.

**INTRODUCTION**

The examination period, for purposes of this report, is January 1, 2003 through December 31, 2005, and the examination date is December 31, 2005. The examination was performed by examiners representing the MID and covered National Pre-Paid Legal Services of Mississippi, Inc.'s ("the Company") operations and financial condition, which included the review of material transactions and/or events that occurred subsequent to the examination date and were noted during the course of the examination.

## SCOPE OF EXAMINATION

The examination of the Company was a full scope financial examination conducted in a manner consistent with the standards and procedures developed by the MID and the National Association of Insurance Commissioners (NAIC), which included an assessment of the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, and compliance with applicable laws. A full scope market conduct examination was not performed; however, limited procedures were performed on certain areas of the Company's market conduct.

## HISTORY OF THE COMPANY

In 1983, the Company was incorporated in the State of Georgia with authorized capital of 10,000 shares of common voting stock; par value \$1 per share. The Company, effective December 1, 1983, was granted a Certificate of Authority to write pre-paid legal contracts in the State of Mississippi. The Company is domiciled in the State of Georgia.

## MANAGEMENT AND CONTROL

The Articles of Incorporation and Bylaws vest the management and control of the Company's business affairs with the Board of Directors ("Board"). The members of the duly elected Board, along with their place of residence and principal occupation, as of December 31, 2005, were as follows:

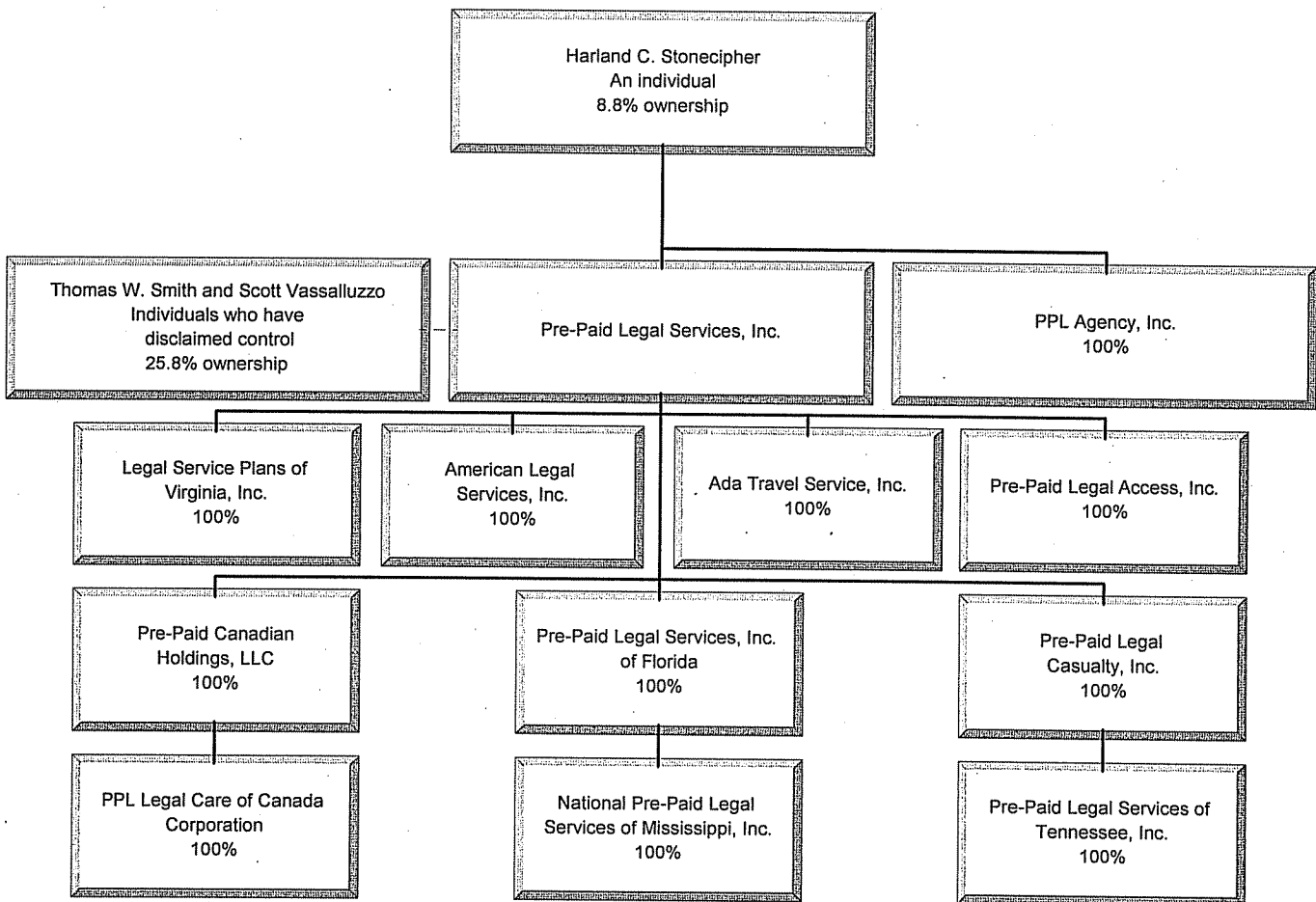
<u>NAME AND PLACE OF RESIDENCE</u>	<u>PRINCIPAL OCCUPATION</u>
Mr. Harland Stonecipher Centrahoma, Oklahoma	Chairman of the Board, Pre-Paid Legal Services, Inc.
Mr. Randy Harp Ada, Oklahoma	Chief Operating Officer, Pre-Paid Legal Services, Inc.
Mrs. Kathleen Pinson Ada, Oklahoma	Vice-President, Pre-Paid Legal Services, Inc.

The officers duly elected by the Board, and holding office at December 31, 2005, were as follows:

Mr. Randy Harp	President
Mrs. Kathleen Pinson	Secretary and Treasurer

## HOLDING COMPANY STRUCTURE

The Company is a member of an insurance holding company system as defined within Miss. Code Ann. §83-6-1. All of the Company's outstanding capital stock was owned by Pre-Paid Legal Services, Inc. of Florida, which in turn was wholly-owned by Pre-Paid Legal Services, Inc. (PPLSI), a publicly traded company located in Ada, Oklahoma that, as reported in its filed December 31, 2005 "Form 10k," had assets in excess of \$159 million and stockholder's equity in excess of \$51 million. The following organizational chart displays the members of the holding company structure involving the Company.



## RELATED PARTY TRANSACTIONS

**Tax Allocation Agreement:** The Company's ultimate parent company, PPLSI, filed a consolidated federal income tax return. Tax allocations were equivalent to the ratio of the Company's taxable income or loss against the total taxable income or loss reported within the consolidated tax return.

**Lease Agreement:** Effective January 1, 2004, the Company entered into a lease agreement with PPLSI. The Company leases office space located in Ada, Oklahoma. Under the provisions of the agreement, the Company paid approximately \$7,000 a year in lease payments. The lease agreement is cancellable with written notice.

**Management Agreement:** The Company is party to a management agreement with its ultimate parent company, PPLSI. The agreement provides that PPLSI will perform record-keeping, accounting and administrative services in regard to the business issued by the Company. Fees paid for the services provided under this agreement were \$512,385 in 2005, \$455,503 in 2004 and \$474,122 in 2003. In addition, PPLSI disperses commission advances to all sales associates, including those representing the Company. During the review of the inter-company accounting for these transactions it was noted that reversal entries were not being handled properly and it is recommended that the Company put procedures in place to prevent this type of situation in the future.

## CONFLICT OF INTEREST

The Company's ultimate parent company, PPLSI, established policies and procedures to identify existing or potential conflicts of interest. The officers and directors of the Company completed conflict of interest statements that identified the Company's ultimate parent company, but did not name the Company. In addition, the conflict of interest statements provided were completed for years 2004 and 2006, but were not completed for year 2005. Further, during the examination, the Company's directors and officers prepared new conflict of interest statements, which specifically named the Company. These statements were reviewed without exception. It is recommended that the Company's officers and directors annually prepare conflict of interest statements and that these statements, at all times, specifically identify the Company.

## CORPORATE RECORDS

The minutes of the meetings of the Stockholders and Board, regarding the Company's business affairs, were reviewed and appeared to be complete and in order with regard to recording action on the matters brought up at the meetings for deliberation.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company was a named insured on an Executive Protection Policy issued to PPLSI. The policy provided for \$1 million of coverage with a \$10 thousand deductible, per occurrence, which protected the Company from loss due to dishonest or fraudulent acts committed by employees. The fidelity coverage met the minimum amounts suggested by the NAIC. In addition, the Company was a named insured on other insurance policies, which provided coverage for errors and omissions, commercial auto liability, commercial general liability, commercial property, and directors' and officers' liability insurance.

## **DIRECTORS', OFFICERS', EMPLOYEES' AND AGENTS' WELFARE**

The Company did not have any employees of its own and, as previously mentioned, received management services from PPLSI.

## **TERRITORY AND PLAN OF OPERATION**

The Company is licensed to sell pre-paid legal contracts in the State of Mississippi. The standard benefits of these contracts include preventive legal services, motor vehicle legal defense services, trial defense services, and Internal Revenue Service audit services. The average premium, or membership fee, charged was approximately \$20 per month. The Company's products are "multi-level marketed" through the Company's ultimate controlling parent company, PPLSI. As of December 31, 2005, the Company had approximately 10,587 members and 1,984 associates marketing its products. The majority of the claims filed by the Company's members were handled by its Mississippi provider-attorney law firm, Framme Law Firm of Mississippi, P.C., which was determined to be in "good-standing" with the Mississippi State Bar Association. The Company paid a monthly fee based on the number of active members to this firm.

## **STATUTORY DEPOSITS**

The Company had a certificate of deposit for \$50,000 that was pledged to the State of Mississippi. This deposit was in compliance with Miss. Code Ann. §83-49-23.

## **MARKET CONDUCT REVIEW**

A full scope market conduct examination was not performed; however, limited procedures were performed on certain areas of the Company's market conduct. The areas in which limited procedures were performed included advertising, complaints, policy filings, associate licensing, and claims handling. No significant exceptions with regard to the limited procedures performed were noted.

## ACCOUNTS AND RECORDS

For the Company's records, PPLSI utilized an IBM iSeries computer system. Programmer analysts and technical support personnel customized programs to meet the Company's needs for memberships, commissions, licensing, and other data. Accounting records, including the general ledger, accounts payable and payroll, were maintained on JD Edwards (JDE) software. Payments to provider-attorneys and commission payments, among other items, were computed through custom programs and the corresponding journal entries were electronically generated to interface with the JDE software.

## CONTINGENCIES AND SUBSEQUENT EVENTS

The companies within the "Pre-Paid Legal Holding Structure" are involved in several lawsuits where the ultimate outcome or the possible impact on the companies, at the date of this report, was not determinable. The significant cases involving the Company, in which PPLSI paid half the legal fees to defend, include multiple lawsuits filed by current or former members, which named certain officers, employees, sales associates, and other defendants in various Mississippi state courts. These lawsuits seek actual and punitive damages for alleged breach of contract, fraud, and various other claims in connection with the sale of memberships. Specifically, the Company was aware of eleven (11) separate lawsuits involving approximately 400 plaintiffs in multiple counties in Mississippi, where the Company's legal defense filed lawsuits in the United States District Court for the Southern and Northern Districts of Mississippi in which the Company sought to compel arbitration of the various Mississippi claims under the Federal Arbitration Act and under the terms of the Membership Agreements. One of the federal courts ordered arbitration of a case involving eight (8) plaintiffs. In addition, the Company previously went to trial regarding three separate lawsuits in the State of Mississippi. The first resulted in the Company's favor, while the judge in the second trial overturned the jury's finding of fraud and fraudulent misrepresentation on the grounds of insufficient evidence and reduced the damages awarded to a nominal amount. The third trial, after the judge entered an order granting the plaintiff's motion to reconsider the submission of the issue of punitive damages, resulted in punitive damage verdicts against the Company and PPLSI's chief executive officer for a total amount of \$9.9 million. As of the date of this report, the Company, et al, has offered to settle these lawsuits and it appeared, for the amount PPLSI intends to allocate to the Company, that sufficient funds for the offered settlement(s) were available and accrued in the financial statements.

## **FINANCIAL STATEMENTS**

The following financial statements consist of a Statement of Admitted Assets, Liabilities, Surplus and Other Funds as of December 31, 2005, a Statement of Income for year ended December 31, 2005, a Reconciliation of Surplus as Regards Policyholders for examination period ended December 31, 2005, and a Reconciliation of Examination Adjustments as of December 31, 2005.

**NATIONAL PRE-PAID LEGAL SERVICES OF MISSISSIPPI, INC.  
STATEMENT OF ADMITTED ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS  
DECEMBER 31, 2005**

**Admitted Assets**

Bonds	\$745,015
Cash on deposit	214,638
Investment income due and accrued	9,168
Uncollected premiums	59,611
Net deferred tax asset	28,866
Total Admitted Assets	<u>\$1,057,298</u>

**Liabilities, Surplus and Other Funds**

Losses	\$2,331
Loss adjustment expenses	130
Other expenses	38,589
Current federal income taxes payable	9,622
Unearned premiums	98,159
Payable to parent company	451,723
Total Liabilities	<u>600,554</u>
Capital common stock:	
(par value \$1 per share; 10,000 shares authorized; 5,000 shares issued and outstanding)	5,000
Gross paid in and contributed surplus	1,058,542
Unassigned funds	<u>(606,798)</u>
Total Surplus and Other Funds	456,744
Total Liabilities, Surplus and Other Funds	<u>\$1,057,298</u>



**NATIONAL PRE-PAID LEGAL SERVICES OF MISSISSIPPI, INC.**  
**STATEMENT OF INCOME**  
**FOR YEAR ENDED DECEMBER 31, 2005**

Premiums earned	\$2,458,050
Underwriting expenses	
Losses incurred	762,831
Loss expenses incurred	50,194
Other underwriting expenses	<u>1,699,653</u>
Total underwriting expenses	<u>2,512,678</u>
Net underwriting loss	(54,628)
Net investment income	21,166
Net realized gains	<u>135</u>
Net investment gain	<u>21,301</u>
Loss before federal income tax benefit	(33,327)
Federal income tax benefit	15,041
Net loss	<u>\$ (18,286)</u>

**NATIONAL PRE-PAID LEGAL SERVICES OF MISSISSIPPI, INC.  
RECONCILIATION OF SURPLUS AS REGARDS POLICYHOLDERS  
FOR EXAMINATION PERIOD ENDED DECEMBER 31, 2005**

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Surplus as regards policyholders, beginning of year	\$976,700	\$897,749	\$470,350
Net income	(348,893)	(424,941)	(18,286)
Change in non-admitted assets	270,051	0	0
Change in net deferred income tax	<u>(109)</u>	<u>(2,458)</u>	<u>4,680</u>
Change in surplus for the year	<u>(78,951)</u>	<u>(427,399)</u>	<u>(13,606)</u>
Surplus as regards policyholders, end of year	<u>\$897,749</u>	<u>\$470,350</u>	<u>\$456,744</u>

## **RECONCILIATION OF EXAMINATION ADJUSTMENTS**

There were no changes made in this report to the admitted assets, liabilities or surplus balances reported by the Company for the year ended December 31, 2005. The surplus as regards policyholders, which, as reported, totaled \$456,744 as of the examination date, was determined to be in compliance with Miss. Code Ann. §83-49-23.

## COMMENTS AND RECOMMENDATIONS

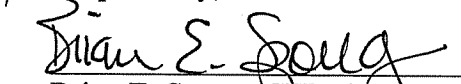
1. It is recommended that the Company's officers and directors annually prepare conflict of interest statements that specifically identify the Company. (See page 5)
  
2. The Company's parent company, PPLSI, disperses commission advances to all sales associates, including those representing the Company. During the review of the inter-company accounting for these transactions it was noted that reversal entries were not being handled properly and it is recommended that the Company put procedures in place to prevent this type of situation in the future. (See page 5)

**ACKNOWLEDGEMENT**

In addition to the undersigned, the examiners representing the MID who participated in the examination are listed below.

Manager:	Mr. Joseph R. May, CFE, CPA, CMA, CIE
Automation Specialist:	Mr. J. Scott Joyner, CISA, AES, CGAP

Respectfully,

  
\_\_\_\_\_  
Brian E. Spong, CFE, CPA  
Examiner-In-Charge