

APPENDIX

A

## Pre-Paid Legal Services of Tennessee, Inc.

### NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2002 and 2001

#### NOTE 8 - CONTINGENCIES - CONTINUED

In December 2002, the West Virginia Supreme Court reversed a summary judgment which had been granted by the Circuit Court of Monongalia County, West Virginia in favor of the Company in connection with the claims of a former member, Georgia Poling and her daughters against the Company and a referral lawyer with respect to a 1995 referral. That action was originally filed in March 2000, and alleges breach of contract and fraud against the Company in connection with the referral. The case is now scheduled for trial in August 2003, and plaintiffs seek actual and punitive damages in unspecified amounts. The ultimate outcome of this case is not determinable.

While the ultimate outcome of these proceedings is not determinable, the Company does not currently anticipate that these contingencies will result in any material adverse effect to its financial condition or results of operations, unless an unexpected result occurs in one of the cases. If an unexpected result were to occur in one or more of the pending cases, the amount of damages awarded could differ significantly from management's estimates. The Company believes it has meritorious defenses in all pending cases and will vigorously defend against the plaintiffs' claims.

The Company is a defendant in various other legal proceedings that are routine and incidental to its business. The Company will vigorously defend its interests in these proceedings, as well as those described above. The Company will also bring counterclaims when appropriate and seek recovery of defense cost when permitted. While the ultimate outcome of these proceedings is not determinable, the Company does not currently anticipate that these contingencies will result in any material adverse effect to its financial condition or results of operations.

Occasionally, PPLST is a named defendant in lawsuits arising in the ordinary course of business. While the outcome of these lawsuits cannot be predicted with certainty, PPLST does not expect these matters to have a material adverse effect on PPLST's statutory basis financial condition, liquidity or results of operations.

## Pre-Paid Legal Services of Tennessee, Inc.

### NOTES TO FINANCIAL STATEMENTS - STATUTORY BASIS - CONTINUED

December 31, 2002 and 2001

#### NOTE 8 - CONTINGENCIES

The Company and various of its executive officers have been named as defendants in a putative securities class action originally filed in the United States District Court for the Western District of Oklahoma in early 2001 seeking unspecified damages on the basis of allegations that the Company issued false and misleading financial information, primarily related to the method the Company used to account for commission advance receivables from sales associates. On March 5, 2002, the Court granted the Company's motion to dismiss the complaint, with prejudice, and entered a judgment in favor of the defendants. Plaintiffs thereafter filed a motion requesting reconsideration of the dismissal, which was denied. The plaintiffs have appealed the judgment and the order denying their motion to reconsider the judgment to the Tenth Circuit Court of Appeals, and as of March 31, 2003, the case was in the briefing stage. The Company is unable to predict when a decision will be made on this appeal. In August 2002, the lead institutional plaintiff withdrew from the case, leaving two individual plaintiffs as lead plaintiffs on behalf of the putative class. The ultimate outcome of this case is not determinable.

Beginning in the second quarter of 2001, multiple lawsuits were filed against the Company, certain officers, employees, sales associates and other defendants in various Alabama and Mississippi state courts by current or former members seeking actual and punitive damages for alleged breach of contract, fraud and various other claims in connection with the sale of memberships. As of March 31, 2003, the Company was aware of 28 separate lawsuits involving approximately 298 plaintiffs that have been filed in multiple counties in Alabama. One suit involving two plaintiffs which was filed as a class action has been dismissed with prejudice as to the class allegations and without prejudice as to the individual claims. As of March 31, 2003, the Company was aware of 14 separate lawsuits involving approximately 428 plaintiffs in multiple counties in Mississippi. Certain of the Mississippi lawsuits also name the Company's provider attorney in Mississippi as a defendant. Proceedings in eleven cases which name the Company's provider attorney as a defendant have been stayed for at least 90 days as to the provider attorney (and as to all defendants in some cases) due to the rehabilitation proceeding involving the provider law firm's insurer. In addition, two cases have been stayed by the Mississippi Supreme Court pending its ruling on the Company defendants' appeal of the trial court's granting of a partial summary judgment that the action is not required to be submitted to arbitration. At least two complaints have been filed on behalf of certain of the Mississippi plaintiffs and others with the Attorney General of Mississippi in March 2002 and December 2002. The Company has responded to the Attorney General's requests for information with respect to both complaints and, as of March 31, 2003, the Company was not aware of any further actions being taken by the Attorney General. In Mississippi, the Company has filed lawsuits in the United States District Court for the Southern and Northern Districts of Mississippi in which the Company seeks to compel arbitration of the various Mississippi claims under the Federal Arbitration Act and the terms of the Company's membership agreements, and has appealed the state court rulings in favor of certain of the plaintiffs on the arbitration issue to the Mississippi Supreme Court. These cases are all in various stages of litigation, including trial settings beginning in Alabama in May, 2003, and seek varying amounts of actual and punitive damages. While the amount of membership fees paid by the plaintiffs in the Mississippi cases is \$500,000 or less, certain of the cases seek damages of \$90 million. Additional suits of a similar nature have been threatened. The ultimate outcome of any particular case is not determinable.