



FDI Releases Top 10 Red Flags for Fraud at Pre-Paid Legal Inc.

Top 10 list reveals how Pre-Paid Legal Inc. (NYSE: PPD) allegedly illegally billed the wrong Washington Times columnist who has now gone public with concerns about the company

For Immediate Release

SAN DIEGO/EWORLDWIRE/Aug. 12, 2008 --- The Fraud Discovery Institute ('<http://www.frauddiscovery.net>') today released a first-ever 'Top 10 Red Flags for Fraud' list exposing multiple alleged misrepresentations at service-based, multi-level marketer, Pre-Paid Legal Inc. (NYSE:PPD).

"Our goal with this 'Top 10' list was to show the striking similarity between Pre-Paid Legal's recent second quarter earnings release and an iceberg," said Barry Minkow, co-founder of the Fraud Discovery Institute. "Both an iceberg and Pre-Paid Legal's reporting of their earnings have one thing in common: Their true realities exist below the surface and are concealed from the casual observer's sight."

The newly released list and addendum report substantiate this claim with numerous illustrations. In one example, Pre-Paid Legal reported, "above the surface" numbers in bold text, boasting about increased membership revenues, net income, and earnings per share. Yet the company did not, with equal zeal, disclose the true state of the business as shown by the decline in key metrics of interest to Wall Street, such as significantly declining recruitment.

In fact, in the company's first quarter conference call, Pre-Paid Legal COO Randy Harp said: "And as goes recruiting, so goes membership sales. So we are very focused. I will tell you the theme of our international convention at Oklahoma City was very much recruit, recruit, recruit, and don't get it out of order." Obviously recruitment is a key metric for the company and a simple analysis of the numbers shows an utter decline, something management didn't see fit to highlight in large bold letters.

According to Minkow, "When one looks below the surface, the reality of Pre-Paid Legal's financial condition is alarming." The recent list and addendum reports by FDI include the following startling facts:

- . Declining recruitment of salespeople, who are called "associates": Recruitment of new associates, the key metric and lifeblood of the company, has been declining. Compared to the same quarter a year ago, recruitment is down a mind boggling 31 percent. Compared to the first six months of last year, recruitment is down 25 percent. Both figures are staggering.
- . Fewer associates are making sales: During all of 2007, 85 percent of the associates either quit or did not make even one sale.
- . Pre-Paid Legal is so focused on maintaining an artificially inflated stock price that in 2008 they repurchased shares of stock which totaled over \$27.7 million of cash just repurchasing shares, and \$10 million of that was financed with short-term debt. Even with cash from operations in the first six months of 2008 down over 20 percent, management continues repurchasing shares at any cost.
- . Prepaid has fewer customers, who are called "members": At the end of the first quarter of 2008, Pre-Paid Legal reported 1,481,531 active legal memberships. 127,804 memberships were sold during the second quarter, which ended with 1,481,051 active legal memberships. This equates to a net loss of 128,284 members just during the second quarter, which was equivalent to 9 percent of its entire customer base at the end of the first quarter. The net result? The company recruited fewer in the second quarter than it lost - a huge red flag.
- . Increasing proportion of revenue coming directly from salespeople rather than customers: In 2000, 22 percent of Pre-Paid Legal's total customers were also salespeople. Today, the salespeople make up more than 30 percent of the total number of customers and an even greater proportion of total revenue.

The Top 10 Red Flags for Fraud list is supported by a new, updated report from worldwide multi-level marketing expert, Robert Fitzpatrick. He concluded: "News media exposes and lawsuits have combined with a mathematic threshold of 'information saturation' to bring [Pre-Paid Legal] to this position of lost faith within its market. The saturation point is based on the mathematical limits that the company has already reached in the North American market. Unlike other multi-level marketing schemes that also quickly saturate home markets, [Pre-Paid Legal] cannot expand to other countries with its current product offering."

The Fraud Discovery Institute has also updated its '<http://www.prepaidillegal.com>' Web site with this new information.

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