

For Immediate Release

Title: Prepaid Legal, Inc (NYSE:PPD) releases Q-3 09 numbers; shows the company's key metric, membership fees, down 1.5% while total new memberships decline 7%

Subtile: Q-3 numbers reveal 85% of PPD's sales force quits or fails to make even one sale annually; 2% of sales force makes 10 or more sales annually

Friday, October 2, 2009 San Diego, CA

The Q-3'09 data released today by Pre-Paid Legal Services further confirm the analyses our expert Robert Fitzpatrick has presented over a two-year period of a pyramid selling scheme in ultimate decline. The two key indicators, declining retail sales and a growing proportion of revenue sourced directly and only from salespeople (investors), not retail customers, are prominent in Q-3'09 figures, as they have been in previous quarters.

For the last two years, these analyses of Pre-Paid Legal revealed and examined that the driver of PPD's revenue is a deceptive "endless chain" business opportunity, not market-based product sales. Additionally PPD data manifested classic signs of pyramid collapse. Hard numbers showed declines in recruitment of sales associates, rates of recruitment and membership sales. Another red flag – the proportion of the total company revenue coming directly from the sales people – indicates that revenue depends on promises of income. At PPD, these promises are tragically false and misleading.

- 85% of the PPD's sales force quits or fails to make even one sale each year.
- Only 2% of the sales force makes 10 or more sales per year.
- Mean average income of all salespeople in 2008 was \$5.74 per week, before all expenses.

Pre-Paid's Q-3'09 data reflect the general spike in recruitment that most direct selling companies have realized as a result of millions of newly unemployed people. In a USA Today article, the president of the Direct Selling Association stated, "unfortunately as the unemployment rate rises to 10% or higher, we'll be picking up more people who need an income-earning opportunity."¹

Retail Sales Decline; Revenue Sourced from Sales Reps Grows

Yet, behind the industry-wide spike based on income promises, PPD's retail customer

¹ May 15, 2009, "Direct Sales..." by Charisse Jones

base declined this quarter over the same period last year and the proportion of new memberships that are actually recruited salespeople grew dramatically.²

- Total new memberships – that are not sales associates – declined 7% in Q-3'09 from Q-3'08.
- The proportion of new Memberships that are actually new sales associates rose to 43% in Q-3'09 from 26% in Q-3'08.

PPD does not reveal a total Associate count per quarter. However, totaling all Associates recruited in the last 4 quarters shows that newly recruited Associates as a proportion of total Members at the end for the third quarter '09 grew from 8% in Q-3'08 to 10%.

At the end of the quarter, the total number of Active Memberships declined by more than 30,000 from the same period last year and the company reports that membership fees in force decreased approximately 1.5% during the last twelve months.

Cancellations Exceed Recruitment

Previous analyses have noted that PPD is unique in the legal services industry for its extraordinary cancellation rates, traditionally viewed as a result of misleading or over-hyped sales.

PPD tracks cancellation with an arcane and obscure “membership persistency rate” which blends both attrition and recruitment. This measure declined in Q-3'09 from 73.5% to 72.6% for the 12 month period.

The hard numbers are these: At the end of Q-3'08, one year ago, PPD reported that it had a total of 1,575,893 Memberships. Over the next four quarters, ending with this quarter, Q-3'09, it reported signing up 552,488 new Members. This would bring a total to 2,128,381. However, the company reports that actual current members at the end of Q-3'09 are only 1,545,55.

582,826 Members canceled their memberships during the last 12 month, 30,000 more than the number recruited in the same time frame.

Insider Sell-offs

As reported in the previous quarter and in earlier analyses, PPD manifests another

² PPD Sales Associates are also Members. To get the actual number of new retail customers (Members that are not Sales Associates) the newly recruited Sales Associates must be subtracted from the total new Members.

classic sign of a pyramid in decline – the use of company revenue to enhance the private fortunes of the insiders at the expense of the longer term fortune of the enterprise. PPD's total net value is now about half of what it was 10 years ago, yet its stock has been manipulated to its highest point in its history.

In the midst of decline, the company used available funds to buy up stock, driving up the share price artificially, and then insiders have sold off many of their own personal shares at the high prices.

In its latest disclosures, Pre-Paid Legal announced that the company used \$761,758 to purchase 15,666 shares of common stock at an average per share price of \$48.62. In this same quarter, the company CEO, Harlan Stonecipher sold 2,500 personal shares. There has been no insider purchase of PPD stock within the last year.