



PRE-PAID LEGAL SERVICES[®], INC.

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*For Immediate Release
Tuesday, May 16, 2006*

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PRE-PAID LEGAL ISSUES LETTER TO SHAREHOLDERS

ADA, OK, May 16, 2006 - Pre-Paid Legal Services, Inc. (NYSE:PPD) - The attached "Letter to Shareholders" from our Chairman and CEO Harland C. Stonecipher was posted on our web site for shareholders and/or electronically distributed to them today.

Letter to Shareholders – No. 8
From Harland C. Stonecipher
Date: May 16, 2006

Recent negative publicity about us is but another example of what we have endured since becoming the target of a short attack five and a half years ago. Since then we have communicated directly with you several times to help you better understand what was taking place. By addressing the negative points brought up, we would like to bring you up-to-date on what we have been doing and where we are headed. Rereading the previous seven letters to shareholders will give you an even better understanding of what we have accomplished.

The recent negative publicity addresses the lawsuits we have had to contend with, questions the value of our membership, seems to indicate that we may have regulatory problems, questions the viability of our business based on how long our members remain members, and suggests we are more interested in building a sales force than in delivering our product.

First, the lawsuits. Remember, we have been in business for 34 years. Until the short attack began in late 2000, lawsuits were never a problem. Why now?

A common tactic used by the rogue element of the short world is to bring about or encourage as many lawsuits as possible regardless of their merit. After all, lawsuits generate headlines. And that is what happened to us.

First came shareholder class action lawsuits. Each lawsuit, broadly and continuously covered by the media, was presented as a serious threat to our survival. One reporter quoted an attorney we later discovered had been disbarred. That these lawsuits were either withdrawn or thrown out of court with prejudice brought little media coverage. The same was true when the lead institutional plaintiff in one shareholder class action lawsuit withdrew and publicly stated that they did not know they were the lead institutional plaintiff and that the lawsuit was without merit.

But the legal battle was far from over. If we could not be destroyed by shareholder class action lawsuits, try advertising in local newspapers to solicit members to become new plaintiffs. That is exactly what happened to us. Along came a number of lawsuits from members primarily in Mississippi. By now we have learned a thing or two about the legal arena. We are suing the law firm that placed those ads.

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Pre-Paid Legal Casualty[™], Inc.
Pre-Paid Legal Services of Tennessee, Inc.
Pre-Paid Legal Services, Inc., of Florida
National Pre-Paid Legal Services of Mississippi, Inc.
Legal Service Plans of Virginia, Inc.
Ohio Access to Justice, Inc.,
administered by Pre-Paid Legal Services, Inc.
PPL Legal Care of Canada Corporation

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In the meantime those lawsuits had to be dealt with. We have gone through four trials in Mississippi. Each of the first three trials was held in a different county. Each had the same plaintiff's attorney. Each plaintiff's maximum loss (if there was indeed a loss) was but a few hundred dollars. The recent publicity and the plaintiff's attorney (he was the only attorney quoted) failed to point out *we won the first trial*. Nor did the recent publicity or the plaintiff's attorney point out that *we feel we won the second trial*. In a favorable outcome, the second trial resulted in a judgment of \$45,000 with no punitive damages, which the judge reduced to \$500.

The third trial was a bit different although we think the ultimate outcome will be the same. Again with actual damages of but a few hundred dollars, again with the same plaintiff's attorney, the trial produced a judgment of \$40,000, again, with no punitive damages. We were prepared to appeal, but then a strange thing happened. The judge changed her mind with regard to her no punitive damages ruling. As a result, a fourth trial.

A trial involving punitive damages is serious. This last trial lasted only a day and a half. The same plaintiff who lost, at most, a few hundred dollars was awarded punitive damages of \$9.9 million. Of course we will appeal. Our lawyers believe that because there were significant legal and procedural errors in the trial there is a high probability of the verdict being overturned. Moreover, and fortunately for the citizens of Mississippi, the legal environment in their state has improved significantly in the last few years. Our lawyers believe these cases could not even be brought today. We are optimistic about the eventual outcome of this case and our entire legal situation.

The recent publicity questions the value of our membership. It questions how much legal advice one can get for \$26 a month. This is the wrong question.

Times change, thus answers change. Just a few years ago the answer to the question, "How much communications can you get for nothing?" would be, "Nothing." Then the Internet burst onto the scene. As a result, today the answer to that same question is equally obvious, "A lot! As much as you want." We believe we are doing for the legal profession what the Internet has done for communications. We are changing the way legal services are delivered.

The right question is, "How much legal advice can one get for \$524 million or for \$111 million?" That is how much we paid our provider law firms over the last five years and in 2005 alone. The answer to the right question is, "A lot!" This is an important general observation. Now let's get more specific. What do our members think? The answer is easy to find and, thanks to the Internet, it won't cost a cent. Just visit our website. Read the 800+ letters from members thanking us for the legal service they received. And we are adding letters all the time.

For our membership to have value it has to be user-friendly. It has to help our members deal with a wide variety of everyday life events. Visit our website and read the letters. They clearly demonstrate that our membership is user-friendly, can help deal with a wide variety of everyday life events, that our members have an attorney as a lifetime partner a phone call away. That those members even took time to write is an important statement in itself. Not many other membership companies receive such letters from their members.

Now read our latest Annual Report. Read about how our provider law firms and we work together to become ever more efficient, to make our membership ever more user-friendly. Read the profiles of some of our 38

provider law firms and the profiles of some of their 1,000+ attorneys who, on average, have been in the profession 15 years. Read what they think about their association with us, what they think about our product, how they view their responsibilities to our members.

Finally, become a member. Use the membership. Decide for yourself.

The recent publicity brings up our regulatory situation. It is hard to understand why. Our regulatory situation is no different today than it has been over the last 34 years. Thirty-four years with basically the same product sold basically in the same way. And, in some states, we have been regulated as an insurance company for years. Nevertheless, rest assured conforming to the laws, to the regulations is not something we leave to chance. We are and have been proactive. There really is nothing new or more to be said.

The recent publicity questions our viability. It points out that we (we would add “like other membership companies”) have members who cancel their memberships. Again, as we keep pointing out, we have been around 34 years. During that time our retention rate has fluctuated within a small range. Moreover, we have been able to grow our membership base to 1.5 million members while remaining economically sound in spite of a five-and-a-half-year attack in the media and in the courtroom. Both rather strong statements as to our viability.

Of course we would like to improve our retention rate. It is in our economic interest to do so. It is something we are always working on. Recently, for instance, we created an entirely new department to implement a schedule of new member contacts via phone calls and e-mail beginning within weeks of signing up to help new members better understand how to use their membership, to encourage them to use their membership. Our first year retention rate increases by 9 percentage points if a membership is used at all and by 26 percentage points if a will is prepared within the first year. If you believe, as we do, that our viability rests on our ability to deliver a product of value, what usage does to retention is a clear statement as to the value of our membership, a clear statement as to our viability.

Finally, the recent publicity suggests we are more focused on building a sales network than delivering a legal product and points to the significant increase in the number of sales associates in 2005, apparently to validate the point.

Every product has to be sold in one way or another. Like Avon, like almost every insurance company, we sell our product through a direct sales force.

As to the significant increase in the number of sales associates in 2005, growing and managing a direct sales force is an art, not a science. Again, it is an art we have been working at for 34 years, an art that requires constant testing, constant tweaking.

In 2004 we tested a lower fee to become an associate. Obviously, this was done to increase recruiting. More recruits to sell more memberships. Our test worked rather well in the first part of 2005 but proved less successful since then. In retrospect, we believe we missed an important part of the puzzle—training. In February we rolled out a new training program. While it is too early to evaluate, one thing remains unchanged—we will keep testing, keep tweaking, keep trying to improve our retention to grow our membership base. One does not have to be a genius to know that if one wants to stay in business (we do and

we have), the ultimate objective is not just to grow a sales force but to grow the membership base. The first line of our income statement is “Membership Fees.” It is the largest number on the statement.

That covers the points addressed in the recent publicity. Of course, we are prejudiced, but were we writing an article, here is what we would have written.

How Has Pre-Paid Legal Services Fared While Under An Extraordinarily Severe Short Attack That Has Lasted Five and A Half Years?

Pre-Paid Legal Services, a 34-year-old company headquartered in Ada, Oklahoma, selling a one-of-a-kind legal membership product has been subjected to an extraordinarily severe five-and-a-half-year short attack via lawsuits without merit and in the media. While, understandably, we were totally unprepared for a short attack, we seem to be rather fast learners.

We had some rock-solid assets to rely on—a management team that has been with us for an average of 17½ years, some 850 seasoned employees in Ada and elsewhere in Oklahoma, a long-time association with 38 fine law firms, a great many seasoned sales associates and field leadership, and an unusual number of seasoned shareholder partners who have stuck by us. While the short attack slowed our growth, it certainly did not stop it. In fact, we seem to be winning. We managed to grow our membership revenues approximately 10% a year. Our membership base grew 7% a year to 1.5 million members. In addition, we introduced a new identity theft membership product which now has 540,000 members.

Moreover, and very important, not only do we finance our growth from within, we generate excess cash. A rare business model indeed. After building a much-needed \$34 million headquarters, after paying more than \$500 million to our provider law firms, after paying more than \$600 million in commissions to our sales force, after returning \$176 million to shareholders in the form of repurchasing stock (we reduced their number of shares outstanding by 30%, from 22.3 million to 15.5 million) and another \$12 million in dividends for a total of \$188 million, we ended 2005 with more than \$20 million in net cash and investments on our balance sheet.

Unfortunately for the rogue element of the short world, our focus on profitable growth, on delivering a membership of real value, on building an ever better company while dramatically reducing the number of shares outstanding seems to be working.

This, we believe, is the real story of the last five and a half years.

As to our future, the last five and a half years has made us stronger, more determined. We will continue to work to make our products ever more user-friendly, ever more valuable, to make the next five and a half years even better for our employees, our provider law firms, and our sales associates, and we will continue to deliver respectable results to our shareholders. Our focus is to grow our membership base, to make our membership ever more valuable, to remain economically sound, and to be even more aggressive in repurchasing our shares. Importantly, we will conduct ourselves with the integrity all of you have the right to expect.

As always, we thank you for your support.

About Pre-Paid Legal Services, Inc.

We develop, underwrite and market legal service plans across North America. The plans provide for legal service benefits, including unlimited attorney consultation, letter writing, document preparation and review, will preparation, traffic violation defense, automobile-related criminal charges defense and a general trial defense. We also market an identity theft protection plan. More information can be located at our homepage on the worldwide web at <http://www.prepaidlegal.com/>.

Forward-Looking Statements

Statements in this press release, other than purely historical information, regarding our future plans and objectives and expected operating results, dividends and share repurchases and statements of the assumptions underlying such statements, constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. The forward-looking statements contained herein are based on certain assumptions that may not be correct. They are subject to risks and uncertainties incident to our business that could cause actual results to differ materially from those described in the forward-looking statements. These risks and uncertainties are described in the reports and statements filed by us with the Securities and Exchange Commission, including (among others) those listed in our Form 10-K, Form 10-Q and Form 8-K, and include the risks that our membership persistency or renewal rates may decline, that we may not be able to continue to grow our memberships and earnings, that we are dependent on the continued active participation of our principal executive officer, that pending or future litigation may have a material adverse effect on us if resolved unfavorably to us, that we could be adversely affected by regulatory developments, that competition could adversely affect us, that we are substantially dependent on our marketing force, that our stock price may be affected by short sellers, that we have been unable to increase our employee group membership sales and that our active premium in force is not indicative of future revenue as a result of changes in active memberships from cancellations and additional membership sales. Please refer to pages 14 and 15 of our 2005 Form 10-K and pages 7 through 9 of our March 31, 2006 Form 10-Q for a more complete description of these risks. We undertake no duty to update any of the forward-looking statements in this release.

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