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Pre-Paid: Minkow hurt our company.

The fight has gone national

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ADA – If he didn't before, Harland Stonecipher now believes in karma.

At least when it comes to Barry Minkow.

Stonecipher, the founder of Ada-based Pre-Paid Legal Services Inc., has been in a three-year war with Minkow, a self-appointed securities fraud investigator, and Minkow's company, Fraud Discovery Institute Inc.

The fight has gone national.

In 2008, Minkow accused Stonecipher and Pre-Paid of various forms of fraud, describing the Ada-based company as a pyramid scheme in decline. Minkow added to the allegations in a document published in 2009. In that report, Minkow claimed Pre-Paid's main source of revenue was through recruiting sales associates, not through selling market-based products.

Yet during the time Minkow was blasting Pre-Paid and Stonecipher for its business practices, Minkow was also attempting to make money on Pre-Paid's stock.

Through short selling – selling securities borrowed from a third party then hoping to buy them back at a lower price – Minkow had the potential to make substantial profit on Pre-Paid's stock by publishing negative articles about the company, forcing the stock to decline.

Documents supplied by Pre-Paid show the company's stock price dropped following Minkow's public allegations published by his Fraud Discovery Institute.

"He (Minkow) is worse than any of the other short sellers who came out of the blue," Stonecipher said. "We weren't aware of him until he published an article on us under the Fraud Discovery Institute. His work shows the hypocrisy of this guy.

"It didn't have anything to do with the truth," Stonecipher said. "It was all about the money."

Pre-Paid's Co-CEO, Randy Harp, agreed.

"Barry Minkow first published his allegations about Pre-Paid Legal Services on May 1, 2008, when the company's stock price was \$45.65," Harp said. "Approximately 12 months later, on April 14, 2009 – after Minkow had issued nine press releases about Pre-Paid Legal – the stock price had dropped to \$32.02, a decline of \$13.63 or 30 percent."

Those attacks, Harp said, caused the company to lose a significant portion of its shareholder value.

"The average number of outstanding shares during this time frame was 11,397,000, so given this decline in stock price, shareholder value dropped approximately \$150 million," he said.

And while Pre-Paid officials acknowledge that volatility in the stock market could have caused some decline in their stock price, they point to Minkow's reports as the primary reason for their stock's drop.

"It's fair to say a significant portion of this precipitous drop in value was the result of Minkow's attack on the company," Harp said.

Court documents show other companies have had similar experiences.

In Florida, a lawsuit brought by home building giant Lennar Corp. against Minkow echoes the Pre-Paid-Minkow fight. In the Florida case, Minkow is accused of attempting to drive Lennar's stock price down while, at the same time, short selling the company's stock.

In addition to complaints about short selling, a Miami judge ruled that Minkow lied, concealed material witnesses, and destroyed or discarded key evidence in the Lennar lawsuit. Those acts, Circuit Court Judge Gill S. Freeman wrote, caused Minkow to forfeit his right to defend himself in the case and have put the fraud investigator on the line for millions of dollars in legal fees.

Minkow, Freeman said, "withheld key documents, destroyed or discarded important evidence, concealed the identity of material witnesses and engaged in actions to cloud his misconduct."

Minkow and his attorneys said they will appeal the ruling.

Joshua Entin, who represents Minkow and his company, told LA Weekly that the judge's ruling was disappointing and said the sanctions were excessive.

"We disagree with her findings to the extent she rendered a decision Barry should be defaulted and not be able to defend (himself) against the allegations," Entin said. "As to the liability, we also believe that to be in error."

Despite repeated attempts, neither Entin nor Minkow could be reached for comment.

At least one staff member of Minkow's fraud institute has issued a public apology. In a Jan. 7 message posted on Twitter, the president of Minkow's Fraud Discovery Institute, Juan Lopez, apologized to friends and other followers, saying the FDI had "fallen away from our mission and our credibility and our sweat equity that we worked so hard to earn."

Stonecipher said the behavior was typical of Minkow.

"I did some quick reading on him and found out he's been previously convicted of basically doing what he's doing now," Stonecipher said.

Minkow served seven years in prison for run-

ning a Ponzi scheme two decades ago. That scam, records show, defrauded investors in Minkow's ZZZZ Best carpet cleaning business out of as much as \$100 million.

Since then, Minkow has worked to rehabilitate his image.

According to LA Weekly, Minkow has painted himself as "a reformed con who now investigates companies for fiscal fraud."

In a story published last fall, the newspaper said Minkow "shorted stocks in order to profit from companies that, soon after he invested in them, were the subject of critical reports issued by Minkow's fraud institute."

It's also proven costly for Pre-Paid Legal's executives.

In addition to the company's stock decline, Pre-Paid officials said Minkow's allegations have frightened Pre-Paid's associates and cost the associates – and the company – sales opportunities.

"I have, personally, taken countless calls from sales associates (about the Minkow allegations)," Harp said. "Our associates survive to a great extent on their belief of our product and our integrity. This causes them to back up and consider this new information."

Harp recalled one telephone call from an associate and the group they were meeting with.

"They were all on the phone wanting an explanation of these types of allegations," he said. "And for every one that we heard from who postponed or canceled their appointment, there were tens of others that we never heard from. It was a huge lost opportunity."

While Harp agreed that short selling is perfectly legal, he said the process Minkow used – the short sell coupled with his own false, negative reports – wasn't.

"Clearly they've crossed the line," Harp said. "It's just about the money. That's how they put food on the table."

In Florida, Freeman said Minkow's conduct "has been pervasive, intentional and committed to gain unfair advantage over plaintiffs and to deceive this court." And while the Florida lawsuit continues to work its way through the court – a hearing about the amount Minkow must legal fees is expected in the spring – Pre-Paid officials hinted at legal action of their own.

"It is something that we will consult on," said Brooke Murphy, the company's attorney.

Stonecipher agreed.

"You could say we haven't ruled it out," he said.