

H&R BLOCK

Moderator: Colby Brown
December 11, 2013
8:30 a.m. ET

Colby Brown: Good morning. On behalf of the entire management team, it's my pleasure to welcome all of you here, as well as those participating via the webcast, H&R Block's 2013 investor conference. We have an informative and exciting morning planned for you today and are glad you're able to join us.

Before we get started, there are a few housekeeping items to take care of. Yesterday, we released our fiscal 2014 second quarter results. That release, as well as today's presentation, includes certain non-GAAP financial measures. We reconciled the comparable GAAP and non-GAAP figures in the schedules attached to the press release. You can find both the release and the schedules on the Investor Relations page of the website, www.hrblock.com.

I'd also like to remind everyone that today's presentation and various comments made in connection with it will include forward-looking statements as defined under the securities laws. Such statements are based on current information and management's expectations as of this date and are not guarantees of future performance. Forward-looking statements involve certain risks, uncertainties, and assumptions that are difficult to predict. As a result, our actual outcomes and results could differ materially.

You can learn more about these risks on our Form 10-K for fiscal 2013 and our other SEC filings. H&R Block undertakes no obligation to publicly update these risk factors or forward-looking statements.

Shortly after this morning's presentations, we'll post the slides on our Investor Relations website. And as a reminder, our webcast will be available for

replay later today. To give you a sense of today's agenda, opening remarks and presentations will run until approximately 10:00. Then we'll take a 15-minute break. After the break, we'll have our remaining presentations, followed by Q&A, which will conclude around noon Eastern. Refreshments will be available throughout the morning. And a quick logistical note – bathrooms are out the door and to your right.

So, again, welcome, everyone. We're glad you could join us. Thank you for being here, and we hope you enjoy these presentations.

Male: To me, simply the best means giving our clients what they want the most. There are many definitions for success. I always felt that success isn't defined as hitting the numbers, but instead has exceeding clients' expectations.

Male: We look at your life through tax, and we find ways to help.

Male: No doubt that the success of our operations is due to your continued focus on exceeding your clients' expectations, and you should feel very proud.

Male: If we take care of our clients, everything else will follow.

Male: Thank you for all that you do for our brand and for our clients. I wish you the best in the upcoming tax season. And here's to another year of exceeding client expectations.

Bill Cobb: Morning, everybody. And welcome to our 2013 investor conference. How about my friend, Henry Bloch? At 91, he still inspires. Now, we showed that video at our recent franchise convention, and they were very moved by his words and his presence. I actually saw some folks that were brought to tears.

Now, we're pleased to have you join us as we benchmark the 2013 tax season and share with you where we see our opportunities for this coming tax season and beyond. So today we will share with you who we are, what we think we affecting the result for tax season '13, the opportunities we see, and why we are well positioned to leverage them, and how we will continue to drive value for you, our shareholders. Now, I'm going to set up each of these topics and

prepare you for the deeper dive that will come from my team members, who are here with me today.

Now, as we enter our 59th tax season, we continue to be the largest tax preparer in the world, with 25.4 million returns prepared worldwide in 2013, across more than 12,000 offices, staffed by approximately 80,000 tax professionals and associates. We are proud of our history here in the states and our well-established global operations. This year, we're celebrating our 50th year in Canada, and we've been in Australia for over 40 years. And as many of you know, we recently entered India and Brazil.

Now, Americans know us and use us. We file 1 in 6 U.S. tax returns and round out that important financial interaction with tax and financial services that our clients need and want.

Now, let's step back to when I joined H&R Block two-and-a-half years ago and what I saw, frankly, clutter and confusion, lack of clear direction, and yet huge potential. It's why I joined the board in 2010 and why I was privileged to accept the position of CEO in 2011.

You can see where that disarray developed by looking back at the organization, starting in 2007, where we were a decentralized holding company with a tax business alongside a broker-dealer, HRB Financial Advisors, a consulting and accounting firm, RSM McGladrey, and, of course, a mortgage one lender called Option One.

Now, when I arrived in 2011, we were winding down that structure and had moved Option One to discontinued operations. I then set out to reach an agreement for McGladrey to become independent again, which set us up for where we are today, a tax preparation business. Our focus is clear. It all begins with taxes. Tax preparation is our core competency across all channels.

To which we've added a plus, the plus of industry-leading financial services and products that our clients need and want. We also still have our bank, which we're in the process of exiting. We continue to make progress on this and are hopeful to have a transaction completed in time for tax season 2015. Greg Macfarlane will share more on this issue later today.

Now, while structure is important, of equal, if not more importance is how we operate within that structure. Now, one of the most important things I have done since becoming CEO is to define what guides us. It is critical that the organization understands how to think about not only what we know today, but how we will shape tomorrow. We needed a framework to move past the confusion of the prior years, and it began with our purpose.

Simply put, we look at your life through tax and find ways to help. It all begins with taxes and how we look at life through the lens of tax. Only H&R Block does this.

From there, our vision. The carefully chosen words of our vision make clear that we are the leading global consumer tax company, bringing tax and related solutions to clients year-round. But to have a purpose and realize this vision, we needed to be grounded in values. We do the right thing. Simple and clear. I hear it echoed in meetings across the organization, as teams address opportunities and challenges. What's the right thing to do, they ask?

And we elaborated on that phrase with three simple statements – for us, to do the right thing means we believe in our people, we take care of our clients, and we deliver for our shareholders. In the end, we do the right thing.

Now, these values are built on the strong legacy of our founder. Henry Bloch also had a simple formula for achieving success – the client always comes first. Now, when I arrived at Block, I reached out to Henry and established a relationship that I often tap for inspiration. This simple principle that guided him and his brother, Richard, continues to shape our company. Serving our clients begins with believing in our people.

We hire, train and deploy approximately 80,000 tax professionals and associates across the globe. Our tax professionals are among the best-trained and highly certified in the industry, and we are proud of them. And our tax experts don't simply answer tax questions. They advise, they prepare, and, yes, they sign the returns for our clients. It's a very personal connection.

And through our associates, we've actually evolved our founders' advice into our core operating principle. We are uniquely positioned to serve our clients the way they want to be served, anywhere, any way, and any time, assisted in our retail operations through digital channels or on mobile devices, from assistance with filing your taxes to do-it-yourself or anything in between. And this focus has allowed us to deliver for our shareholders.

Our shareholder story is a strong one. Since 1962, we have maintained our quarterly dividend, 205 consecutive quarters. And since I took over as CEO in May of 2011, we have returned over \$1 billion to our shareholders in share repurchases and dividends.

Now, let's take a closer look at the 2013 tax season. This was an unusual season, one where the overall market did not grow as it has in the past. I was pleased that we were able to turn our trajectory around, which was the first step toward our clear focus on growing revenue. And I'm also pleased that we also achieved some strong customer satisfaction scores.

Now, we have dug deeper into the data from the season to better understand what factors were in play. There is no convenient smoking gun to explain why filings were down at the end of last tax season by 0.6 percent while employment rose. But we have identified a number of factors that we believe contributed to the decline in filings.

One set of factors reflect the impact of the ongoing tough economic times on how Americans file taxes. Many long-term unemployed people no longer qualify for unemployment benefits that are taxable, leading to a decline in tax filings and labor force participation rates. In fact, participation in the labor force has fallen from 66 percent in 2007 to 62.8 percent in 2012.

Additionally, from 2007 to 2012, median household income in the U.S. fell 8 percent. So as wages decreased and part-time jobs increased, some workers moved into income brackets that no longer require them to file a tax return.

Now, we've also seen a drop in homeownership, and this decrease either reduces filings or moves filers to a simpler form.

Now, another set of factors we looked at were some issues specific to this industry. The IRS is improving its identity theft protections, and based on Treasury Department reporting, we believe this resulted in up to 400,000 more returns that were rejected in 2013 compared to the previous year.

And finally, the late start to the 2013 filing season resulted in increased extensions at Block and across the industry. In fact, the IRS published data just last week that showed off-season filings this year were up 8 percent, or approximately 1 million more returns compared to the prior year. So including these extensions, this would bring returns closer to flat for all of last year.

Now, given all this data, as we look to 2014, we believe industry returns will grow in the range of 0 percent to 1 percent compared to the prior year. So hopefully this more substantive look at tax season '13 helps to provide a fuller explanation of the industry's last season and helps us all to move on.

So let's now take a closer look at our performance in tax season 2013. We continued to focus on driving profitable growth in our assisted business, and we have exceeded very aggressive client satisfaction targets for the year. In our digital business, we continued to grow our share of the online category with a significant increase in returns of 10.7 percent in 2013. And our financial products saw continuing progress. We have grown the Emerald Card over the past two years by almost 10 percent in number of cards issued and more than that in deposits. Emerald Card is the third-largest general purpose reloadable prepaid debit card in the U.S. And we believe it is a best-in-class product.

Now, in 2013, our international business continued to be our fastest-growing business, at nearly \$250 million. As we enter our 50th tax season in Canada, we are really pleased with the trajectory there. And the same can be said for Australia, where we just completed our 43rd tax season. Those established businesses complement our expansion strategy in India and Brazil, and we will continue to evaluate other international opportunities.

And finally, looking back at 2013, the bottom line was strong. We significantly exceeded our aggressive expense reduction targets of \$85 million to \$100 million and improved the EBITDA margin by 4 points to 30 percent in line with our long-term guidance on EBITDA margins.

So let's look ahead. There are three topics I want to talk with you about, tax plus, what it is and why it is central to our strategy, health care and how we are approaching its intersection with taxes, and industry leadership, some issues we believe need to be addressed for the good of our clients, our company, and, yes, our country.

Now, as I talked about our purpose and vision, for us it all starts with taxes. We navigate complex tax laws for our clients and serve them how they want to be served. This is what we're all about. Looking forward, we will continue to build on that competency with tax plus, to serve our clients anywhere, anyway, anytime, with products and services that meet their needs.

In pre-season, we offer Emerald Advance, a line of credit that can be maintained year-round. That pre-season engagement is underway right now. During the season, we offer peace of mind, our warranty-like product that backs the work of our tax professionals, and provides support if a client is audited by the IRS. And refund transfer, a consumer convenience that allows our clients to pay nothing out-of-pocket by netting their tax prep fees against their refund when they complete and file their return.

And throughout the year, our Emerald Card, the crown jewel of our suite of financial products and services. As you will hear more about today, this is an industry-leading product with fewer and lower fees than its competition. Now, I carry my Emerald Card with me always, and I use it all the time. We believe that we are uniquely positioned across all the market channels to deliver on this tax plus strategy to both take care of our clients and deliver for our shareholders.

So let's turn to the second topic, health care. Our focus here is where health care and taxes intersect. And right now, I describe us as hanging around the issue, learning about the opportunity to serve our clients in a number of ways.

You will hear great detail later this morning about the Affordable Care Act, but let me just highlight what we are doing.

Last season, we offered a health care and tax review which our clients found extremely helpful. And this season, we will offer an enhanced version of this review in all of our offices. We have launched a Block-branded enrollment service in partnership with Go Health that provides a web-based service with live assistants available to educate and enroll our clients.

And we are assessing how we might prudently invest in other opportunities. For example, we are testing a full-service insurance broker model in some of our Phoenix, Arizona, offices this year. So although we're going to spend a lot of time on this today, the timing and magnitude of this potential opportunity is still unknown. As I said earlier, we're hanging around this issue. It's still early, but we are committed to being well-positioned to capitalize on any opportunity that arises.

And finally, I want to touch on two issues that we believe challenge the industry. While we as a company do not take partisan positions on the tax code, we believe these two tax administration issues should be addressed. First, fraudulent and improper payments and, second, the regulation or lack thereof of paid tax preparers.

For background, let me walk you through some facts. In 2012, the IRS estimated that there were between \$11.6 billion and \$13.6 billion in improperly issued Earned Income Tax Credit payments. Now, these improper payments could be a result of complexity – tax filers do make mistakes – or fraud. And though the data is not segmented by cause, we know that the improper payment rate for EITC returns is over 20 percent for the past 10 years. We also know that since 2008, if you filed an EITC return using a paid preparer, you had to answer more questions to better document your eligibility. However, these same questions are not required if you filed as a do-it-yourself, or DIY, filer. This makes no sense.

And the filing patterns for these EITC returns proves my point. In looking at the filing data, we found that since 2008, while the overall mix of tax filings

between assisted and DIY, as you all know, has stayed relatively constant at a 60/40 split, there has been a clear shift in EITC returns from assisted to DIY. It just seems logical that the growth in do-it-yourself EITC returns may be related to the additional eligibility questions required for assisted returns. If asking these additional questions is a way to help reduce improper EITC payments, it makes sense that across all channels all EITC filers, whether assisted or DIY, should have to answer the same questions. Now, given that we serve clients in all channels, we are uniquely positioned to and are, in fact, working to achieve that parity.

Now to the second issue of regulating tax preparers, let me also share some background. At present, there is no federal regulation of tax preparers, and only three states regulate them. In August of 2011, the IRS imposed new testing and continuing education requirements for tax preparers. We welcome that. We have long invested in the training and education of our tax professionals, and we know our clients and the tax system benefit from that investment.

Now, a civil liberties not-for-profit law firm challenged the regulations in court and in January of 2013 won an injunction against the program. The D.C. Circuit Court of Appeals held a full trial in September, but a decision is still months away.

We think this regulation of tax preparers is important for taxpayers. In a country where all 50 states regulate hairdressers, and only three regulate tax preparers, is it any surprise there is increasing fraud in the tax system? We think that regulation of tax preparers is the right thing to do, so that is why if the IRS is not successful in court, we will support a legislative solution that allows preparer regulations. It simply makes sense for our clients, it makes sense for our company, and, frankly, it makes sense for our country.

So with that, let's get to the rest of today's agenda. Today you will hear from a team of our best and brightest. Kip Knight is president of U.S. retail operations. He's a seasoned leader with over 30 years of deep retail, consumer and franchise experience. Kip came to H&R Block from eBay, where he and

I worked together. He will take you through a deep dive into our assisted business.

Jason Houseworth, president of global digital and product management, is an industry expert on the digital business. You've heard from him in the past and know he is focused on the next generation of opportunities in this market segment. From online to mobile, he will share what creative and innovative things Block has underway to continue to grow our share.

Greg Quarles is our president of financial services. He is a former bank regulator with the OCC who brings a unique perspective to our financial products and services. Greg is a very capable leader for our financial services business, and he will cover today how we're leveraging the plus in tax plus.

Then we will take a break and come back with Mark Ciaramitaro, who is an H&R Block veteran with 13 years of experience with Block. As you will learn today, when it comes to health care, Mark is one of the most knowledgeable people, I dare say, in the world. He will share with you what we know, what we think, and what we're doing in this space.

And, finally, Greg Macfarlane, our CFO, the guy you're actually all waiting to hear from. Greg's a strong leader and financial executive, and he will integrate all the presentations into a cohesive investment thesis for Block.

So thanks again for coming. We have a great line-up for you today. Thanks.

Female: I know taxes, the ins and outs and how to get things done.

Female: We know and we understand tax laws, tax theories...

Male: Corporate returns, partnerships, LLCs.

Female: You can bring me any tax problem, and I will deal with it.

Female: I don't care how complicated it is.

Male: In fact, the more complicated, the better.

Female: We're here to get done what you need done.

Female: Nothing scares me.

Female: I've helped thousands of people, and I can help you.

Male: Just bring it on. That's what we do for our clients. We figure it out.

Kip Knight: Thanks, Bill. This industry is a big and important business, and our brand has tremendous assets. We have an unparalleled distribution network, strong brand awareness, and the most experienced tax pros in the business.

However, lately we have been executing inconsistently in growing our top line. In the upcoming tax season, we will have a singular focus, driving tax plus revenue growth through executional excellence.

What I'd like to cover today can be summed up in three topics. Number one, U.S. tax category – assisted tax category is an exciting industry to be in, since it's incredibly predictable and resilient; number two, H&R Block is well positioned to grow in this category; and, number three, we are reshaping the client experience and improving the way in which we execute.

Let's take a look first at the assisted tax category. Over the long term, the tax prep industry is growing on average about 1 percent to 2 percent annually. It is a great business to be in because it is so predictable and resilient. Like Benjamin Franklin said, the only two things in life that are certain are death and taxes.

And another thing that is predictable is the complexity of the U.S. tax code. It is so complicated, in fact, that 6 out of 10 taxpayers choose to get assistance in preparing their taxes. That's been true for the past decade. And this complexity will continue. The IRS is adding two new tax forms this year in addition to the 700 changes to the current 119 tax forms and instructions.

The assisted tax category is highly fragmented, with a base of nearly 700,000 tax preparers. However, over the past few years, we have seen a decline of 8 percent in the number of industry tax preparers. This is mainly due to the

(loss throughout) which has made the industry less attractive for some independents.

This fragmentation has led to inconsistent quality, increased IRS fraud detection, and more federal regulation. And I would like to reinforce Bill's previous comment about the need for even greater regulation of industry tax professionals.

These category dynamics present an opportunity for H&R Block to gain share through organic growth, as well as attracting independent businesses or tax professionals who would like to become a part of the H&R Block brand to better compete in this industry.

So that's the category. Let's now turn our focus to how H&R Block fits into this category. We are the industry leader for several key reasons. First is our scale. No one in our industry comes close to the size of our network. Second is our tax professional expertise. We have the best and the most highly trained people in the business. Third is our brand awareness. We have the highest brand awareness of any competitor at almost 100 percent.

And finally, we have brought innovation to the tax prep business. We have been and will continue to be the industry innovator. Simply put, we believe H&R Block is the best and the only tax preparation company that will serve our clients anywhere, any way, and any time they want to be served.

Now I'd like to go into a bit more detail on each of these. With over 10,000 retail offices nationwide, we are one of the largest retail networks in the U.S. For perspective, we are bigger than Dunkin Donuts or Walgreens. And we are in the same range as McDonalds and Starbucks. This is a huge competitive advantage for us at H&R Block.

Over the past few years, we've been enhancing our retail footprint by adding new organic locations, acquisitions, and opening up short-term leases in high mall traffic locations. All of this allows us to serve clients when and where they want to be served. Just look around the corner; we are in your neighborhood.

Now, let's talk about our most important asset, our people. Our tax professionals have more expertise than any of our competitors. We have over 70,000 U.S. tax professionals and associates in our company-owned offices and thousands more in our franchise offices.

I'd now like to include myself as one of the newest H&R Block tax professionals. And let me tell you, the H&R Block training I received was a lot harder than a lot of the MBA finance and accounting courses I took. I'd like to invite all of you in this room to have me prepare your taxes this year.

However, I must tell you I am at the beginning level of my certification and I want to make sure that we match you with the appropriate level of tax expertise so that you – that you need so that we might choose a tax pro for a higher certification level for you. In fact, we have 13 certification levels, and 35 percent of our tax pros are in the most highly advanced categories.

We are proud that over 7,500 CPAs, attorneys, and enrolled agents are with H&R Block, the highest designation given to tax preparers by the IRS. Our tax pros have an average of eight years with H&R Block and have had millions of hours of ongoing training.

We know how to do taxes right, and we have the best people in the business. And I'm pleased to report that everyone on this stage today gets their taxes done by an H&R Block tax pro. In fact, I'd like to introduce to all of you two of New York's finest tax pros who are with us here today. I'd like for them to stand, (Kathryn Wozniak) and (Rosa Farantino), who are both enrolled agents designated by the IRS.

If you don't want me to do your taxes, just visit them at the break. They'd be happy to give you their business card and make an appointment for this upcoming tax season, as well as take a second look at your taxes for the past three years.

Earlier, I mentioned our terrific brand awareness. We all know that H&R Block ranks high at 98 percent, but what do people say about H&R Block when you ask them? Our market research tells us there are three commonly used words taxpayers use to describe H&R Block – taxes, trust, and expertise.

Once again, in the first quarter of 2014, we will have a media campaign celebrating this heritage of taxes, trust, and expertise that will be integrated all the way down to the local office level. In my 30 years of marketing, I can tell you, it's one of the best advertising campaigns I have ever seen.

One thing the market has come to expect from H&R Block is, we are the industry innovators. We created the tax preparation business and are a continuous source of innovation for this industry. Let's take a quick look at our innovation that continues to give us such a competitive edge.

First, our second look product. This is our client's opportunity to come in and let us review a tax return filed by somebody else or that they've done on their own. Many of these second-look reviews result in a client getting an unexpected refund, and that's always a great occasion.

Next is Block Live, our crossover product that allows clients to interact virtually with one of our tax pros. In three years of offering this product, we've seen many clients who have been a typical DIY client embrace this product as a first step into the assisted tax category.

Next is My H&R Block Account, a client's virtual file cabinet. I'll cover this a bit more later in my presentation. Also to note, we offer free audit support to clients as part of their tax prep service at no additional cost.

But as innovative as all these products are, we haven't been leveraging our company purpose, we look at your life through tax and find ways to help. To better fulfill this purpose, our most recent wave of innovation has been focused on enhancing the delivery of this suite of tax plus products. I'll speak in a few minutes about what we're going to do this year to make sure our tax pros appreciate and sell these products and ultimately how they will improve our clients' financial lives.

Let's talk briefly about pricing. The assisted tax category is highly inelastic, mainly due to the necessity and lack of familiarity with pricing. However, our pricing strategy needs to evolve. Our ongoing plan is designed around simplification and value alignment through regional pricing within a trade

area. What this means is we need to make sure that our various price points are aligned with different cost of living across the U.S.

Part of our value alignment is to make sure our discounting practices are aligned with our overall strategy to offer fair prices to all clients based on the value they receive.

Having said all that, we haven't delivered the top-line revenue growth lately. I'm very aware of the challenges we face and what this means to this business, as well as our shareholders. So here is what we're going to do.

For tax season '14, we have a new commitment, and it's simple. We have a wildly important goal, driving tax plus revenue. And the way we deliver it is with a singular focus on executional excellence. By delivering a consistent and quality client experience, I am confident we will deliver against our single goal for this tax season, tax plus revenue.

Now, let's take a look at consistent service quality. For perspective, I have over 20 years of retail experience. And if there is one thing that I have learned in those 20 years, it is that clients not only expect, they demand a consistent and great experience every time or they won't come back. Our tax season '14 is very clear – we will deliver a consistent quality experience to each of our 14.5 million clients in every office, every time. And that doesn't just happen when they step in the door. It happens with all client interactions, before, during and after their visit.

Before the visit, we're enhancing our pre-interview resources, making sure we have – we place our clients in front of a tax professional with the appropriate expertise for their situation.

During the visit, it's all about service, from the time they walk in to the time they need. We're going to make sure they have a friendly face there to greet them at the door and take them to a private setting for the tax interview. We'll make sure our clients have the opportunity to get maximum value from their experience through our tax plus products.

And finally, after their visit, it's all about availability. We'll be there for them when and where they need us, regardless of the time of year. A part of consistent service quality is not just the service our clients get from our people. It's also the environment in which we serve them.

So we are making key investments in our signage and furniture to improve this client experience. Clients need to know where we are in their neighborhood. Take a look at this first picture. How in the world is a client supposed to find us? To fix this, we have a multi-year plan already in place. It will enable all of our offices to be bright and visible, so they all look like this. I'd say that's much better, wouldn't you?

And our clients value privacy and security. My goal is when our tax pros prepare taxes over the next couple of years, they never have to serve a client in an office that looks like this.

We are 65 percent finished with upgrading all of our offices to a more private and professional setting. In the next several years, all of our offices will look like this. Now, that's more like it. We are well on our way to having offices with well-lit signs and nicely furnished interiors.

Another exciting area of investment improvement is the innovative technology we're investing in that enhances a client's experience in all interactions with H&R Block. A distributed network demands systems and infrastructure that is reliable, safe, and secure. In fact, the success of our tax interview and the resulting client experience is heavily dependent upon this.

Our size allows us to do things in this space and make investments our competition simply cannot do. We are going to be bigger and better to make sure our tax pros have the best tools and technology to enable this client experience to be seamless.

This is a big year for us, as we continue our journey to move the next generation of our tax preparation platform, which is called Block Works. This year, we're implementing the first phase of this platform by rolling out Block Works for business to all our offices. Additionally, we are testing our Block Works for individual returns in over 1,500 offices this year.

We're putting iPads in the hands of all of our local marketing associates to make it easy to set client appointments. This is a very big competitive advantage for us, since none of our competition allots the amount of investment to local street marketing that we can afford to do.

And finally, we're replacing our out-of-date servers and workstations to maximize system uptime, reliability, and security. For the first time, each of our over 10,000 U.S. locations will be Block tech ready. This means every office has to pass a rigorous technology test before they can operate our tax platform. Technology is one of our biggest competitive advantages we have in delivering a great client experience, and we intend to stay in the lead.

Speaking of technology, I am really excited about our new homepage, hrblock.com. It has a new look and feel that's built around three objectives – first, easier navigation and help functionality; second, dynamic marketing that's customized for every client, showing them what's most relevant to them; and, third, easy selections to choose how they would like for us to help them prepare their taxes. This design follows best-in-class research and navigational tools, placement, and user experience.

Now, while all this is pretty cool, I am especially excited about our new retail landing page. Any new or current client who clicks through to visit an office will be directed here. Once they land here, they're going to have all the information they have at their fingertips to learn about our services, find a tax pro, find the closest office, and get introduced to some of the competitive advantages that help them keep more of their money.

I think this is one of the most informative and easy-to-use websites in our industry. I would go so far as to say, based on my experience at eBay, this is one of the websites I've been on, period. Our clients are really going to love this.

And it doesn't stop there. One of the coolest new online client tools we have is called My H&R Block, formerly called My Account. This is a client's virtual file cabinet to get all their data in one place that is both secure and

convenient. No more shoeboxes for H&R Block clients. We're going to help keep them digitally organized all year round.

We've tested My H&R Block last year. The results of this test blew us away, so we're going to make it bigger and better this year and expand the functionality. Some key features include scheduling an appointment for next tax season, including a picture and contact info for their tax pro, providing a tax checklist for the upcoming tax season, and access to their previous year returns, enabling access to their Emerald Card account, and finally, storing a copy of their tax returns electronically where they can upload it for the upcoming tax season. This will help them get a start on their preparation of their taxes.

Finally, it will include news and information relevant to them. Quite simply, this is one of the most advanced multi-channel tools in our industry. I've looked around, and I can't find anything that comes close to this in delivering the level of convenience, information, and security that My H&R Block Account does. It is another way in which we are serving clients anywhere, any way, and any time they want to be served.

Now, I've talked a lot about the client experience. Let me tell you how we plan to achieve our most important goal, tax plus revenue growth. It is actually very simple. Our entire organization is aligned and rallied around driving this one common metric, tax plus revenue.

Our company has proven that we are operational experts. We could cut cost, impact margins, and create an entire national network with over 70,000 tax pros and associates working together flawlessly. But what we need to do now is have a singular focus on growing the top line. Let's take a closer look at what I mean by tax plus revenue.

When I took this job, Bill told me there were only three things I needed to know – it all starts with taxes, it all starts with taxes, and it all starts with taxes. Everything we do starts with the tax return. And once we've done this successfully, we will offer high-value plus products to our clients. This will

not only maximize their tax experience, it will enhance their financial lives. Together, this is what comprises tax plus revenue.

At the core of the client experience is the tax interview. This is guided by our current tax platform, which is called TPS. Now, we did a lot of research about client and tax pros behaviors. We wanted to be better understand what would influence them to either buy or sell additional tax products. And what we found is the language and positioning of the – of our product screens in TPS matters a whole lot.

So we made enhancements to our tax platform to enable the operating of tax plus products. This tax season, we will have more relevant placement of the offering screens which are customized to each client's situation. We are making these enhancements to make it easy for tax pros to understand and navigate product screens and TPS. This will make it easier to explain and sell tax products to our clients.

My favorite internal campaign we have going on right now is aimed at getting an Emerald Card for each of our associates. Now, I'm a big fan of the Emerald Card. I use it all the time. And what better way for our associates to get associated about offering tax plus products to our clients than getting them excited about the products themselves? In fact, we have seen an 8-point increase in Emerald Card attach rates for tax pros who are using the card themselves.

Now, candidly, our own associates have been lagging in the adopting of the products and services we've been asking them to offer to our clients. So we're going to fix this. But the time tax season '14 gets here, our tax pros will have their own Emerald Card and be able to give a personal testimony as to the value of this product to every client they serve.

We have also aligned incentives of the tax pro and field leadership level around tax plus, our one goal to drive the organization. It is clear what our focus is for tax season '14 and what each associate needs to do to impact their own compensation.

So to wrap up, I am very excited about the upcoming tax season. I've got tremendous confidence in our brand, our network, our people, and our competitive advantages. And what will make the difference in our top-line trajectory this year are three simple things – first, an enhanced client experience through consistent service quality before, during and after their visit, including our investments in the office environment; second, taking our client experience to the next level by investing in innovative technology; and, third, a singular focus on tax plus revenue growth.

This is our wildly important goal throughout the entire organization. And ladies and gentlemen, this is our recipe for success in tax season '14 and beyond. And with that, (Kathryn), (Rosa) and I will be happy to schedule your tax appointments at the next break. Thank you very much.

Jason Houseworth: Good morning. I'm Jason Houseworth, president of global digital tax solutions and product management.

My role is to create great experiences for our digital tax clients across the globe, starting with our digital tax business in the U.S. and internationally, as well as leading the client experience for all of our tax products in my dual role as head of product management.

Today, I'll cover plans for our digital tax products in the U.S., starting with an overview of the digital tax category, followed by our recent performance, including an answer to a question I get a lot from a lot of you, which is, what has allowed H&R Block to outpace the digital online category for the past three years? And finally, I'll share with you key changes to our digital tax products in the U.S. that I believe will create another successful season, as well as why we still have opportunities to unlock more growth in tax season '15 and beyond.

Now, as Bill and Kip have both mentioned earlier, the tax preparation industry has been defined by two distinct methods of tax preparation or client types. You have those who seek assistance and those who are do-it-yourself, or DIY, filers. And there are distinct attitude differences that separate these two types

of filers, and we only see major life events as the catalyst to changing assisted filer to a DIY filer and vice versa.

These attitude differences exist because of the complexity of taxes and an individual's willingness to cope with the stress and the anxiety of the filing process, a process that brings an average refund of approximately \$2,600 to roughly 78 percent of American tax filers.

The majority of Americans choose to have a professional prepare their taxes. And as you can see, this split between assisted and DIY filers has remained relatively stable over the past 10 years, with a DIY category that my products serve remaining relatively unchanged at 39 percent to 40 percent of the overall IRS filings for this same period.

What has dramatically changed over the last decade is the make-up of the DIY category, which is now roughly 54 million returns. And as you can see on the chart, pen and paper returns represented in the orange bars, have migrated to digital methods, which includes filing through both an online and a desktop software.

Our digital business in the U.S. has benefited from the migration of pen and paper filers, a sub-segment which has declined precipitously and now has only 6 million returns.

The other trend within the DIY category is the shift within digital, as digital filers have migrated to online, the largest and fastest-growing category. Online now has roughly 35 million returns, which includes those filing via a mobile device, whether it's a smartphone or a tablet. These mobile returns are included in online, because mobile filers, they often move in and out of an online experience, as the tablet becomes an extension of the laptop or the desktop experience. Online is where you'll hear me focus a lot of my remaining presentation, because we can continue to see this as the key battleground within the digital category.

I'll now walk you through where we've been as a U.S. digital business, specifically highlighting our performance in the category and what I see as the keys to our competitive advantage. Over the past three tax seasons, H&R

Block has gained over 170 basis points of segment share, outpacing our two largest competitors to take the number-two position in online, what I outline as the key battleground in digital. This segment share gain has come at the expense of our primary competitor and the market leader, TurboTax.

When directly comparing against TurboTax, you'll notice that we've nearly doubled the rate of their online growth over the past two tax seasons and have also outpaced TaxACT, which solely focuses in online. While we estimate that we've outpaced TaxACT in online growth over the past three years, we can only directly compare TaxACT for the prior year because in tax season '11 and '12, they did not break out Free File Alliance or FFA returns from their online return numbers. These FFA returns are offered free to low- to moderate-income filers through the IRS.gov website and, therefore, are considered non-commercial, so we exclude them from key online growth comparisons.

This growth has created over 1.8 million returns for the H&R Block brand, which in addition to creating high-margin clients also creates additional opportunities for tax plus revenue through the offerings of paying with a refund, the Emerald Card, and assisted services, a few of which I'll highlight later in my presentation.

So as many of you have asked me over the past few years, why have we been able to outpace the digital category, particularly in online? I'll attribute it to four different reasons, and then I'll go deep on a couple of these in order to illustrate my point.

The first and most obvious is the focus by our management team, led by Bill, to look at the life through tax of all our clients, assisted and DIY, to find ways to help. This means that we are obsessively focused on creating great experiences for our assisted and digital clients.

This leads me to the second reason, which is the set of product improvements we made to create a great experience for clients within our digital tax products. I'll soon unveil our latest product design, which is phase one of a complete rewrite of our tax interview that will be fully implemented in tax season '15.

The third reason is that we've been able to grow our awareness 12 points, so now nearly two-thirds of American tax filers recognize H&R Block also makes tax software. Given that TurboTax has 95 percent brand awareness, we still believe we have a lot of opportunity to grow as we grow awareness.

And finally, since I took over the business in 2010, we've been very focused on improving the conversion funnel or using data that tracks how web traffic turns registered users into ultimately a paid or completed unit. This developing – this development of marketing sophistication has helped us gain insight into which web traffic is the most valuable, and then we use that to invest in traffic that generates high conversion and high average order values and cull traffic that does not.

Last year, we increased our own visit to registration in two points, a significant move, by dropping paid traffic that was not converting or moving through the funnel, and then this allowed us to shift resources to display partners, paid search keywords, and affiliate producers that were much more effective in delivering paid units.

As a comparison, TurboTax gained seven points of web traffic last season. But during their investor day, they noted that their own visit to completion had dropped 3.5 points, which was nearly a 15 percent drop in conversion.

The other improvement in conversion continues to be the ongoing work we do to improve our product. The most important objective we have as a business is to create a great customer experience for our digital clients. And for us, a measure of the simplicity of this experience is how easy it is for a client to complete or pay for filing a return after registering for our product.

The register to complete ratio for our product is 70 percent. And when we think about measuring success in this category, it's hard not to use TurboTax as the benchmark. They recently shared their own registered and complete conversion percentage when they shared their funnel data at their investor conference, and I'm happy to report we are three points better, demonstrating that our focus, which has 4 points of improvement since 2010, has clearly led to product superiority when considering this important metric.

Hopefully this gives you a better idea of why we have been able to outpace the digital category and why we continue to believe we can and will grow faster – at a rate faster than TurboTax in the upcoming tax season, which leads me to what we have planned for tax season '14, as well as plans for our products and opportunities we see ahead in tax season '15 and beyond.

Now, given our most important objective is to create a great customer experience, and I think this was demonstrated in the video introduction that my team put together to serve as a mantra for how we work. This year, we knew we had to raise our game, so we redesigned our entire product experience, inside and out. Our clients will notice our redesigned software packaging, a simplified look and feel on hrblock.com, and new interfaces in our online and iPad products, which represent the most sweeping changes to our interface since tax season 2010.

We also plan to enhance included services in our product. We'll demonstrate our tax expertise by making our live advice unlimited and free to online and software users, a feature that is unmatched in the digital category. We'll continue to improve the tax plus experience, and we're redesigning and adding enhancements to our smartphone and tablet products.

So the first change consumers will notice about our tax software is our software box and displays, which you can see in the back of the room, which now prominently display our iconic H&R Block logo in a simplified design that was intentionally created to be a strong brand billboard for every type of tax filer that walks through Wal-Mart or browses online at Amazon.com over the holiday season. I hope you'll pick up your own version of our software (inaudible) I notice you've already got your version. But please take one for yourself or feel free to take a copy and give one to a friend or family member.

So the next change will be our online billboard, or hrblock.com. This is actually an image of the website from tax season '13 just to demonstrate the holistic changes we've made for the upcoming tax season. This site had a big job to do, managing two different businesses and handling a lot of varying tax and tax plus messages.

For the upcoming tax season, we've created a unique digital homepage. You see here, it's actually within hrblock.com that acts as a landing page for traffic that we recognize is either from a former online client or from a digital-specific display add or paid search keyword. The new website is now launched, so I encourage you to go out and use it. It's been developed in a technology that's known as responsive, so this website can dynamically support browser and screen types across laptops, smartphones, and tablets.

One last thing to note is how we've indicated product selection via both a name, like premium, and also a color. You'll see that this has carried through our online product in just a second.

The other holistic redesign was within our online and tablet products. We became acutely aware of the need for a redesign midway through last tax season when we began to see the number of users accessing our online product from a tablet explode. Again, I'm showing you last year's online product just to draw a comparison to the new design.

This is our new online product homepage. And it actually went live last Thursday, December 5th. As I mentioned, the need for this redesign began last season with the requirement to design for the tablet. But this led to an opportunity to reimagine not only the layout of the interface, but the entire client experience and tax interview. This design represents not only an interference change for the upcoming tax season, but also a holistic change to the way that we plan to take the client through the interview, which will lead to consistent, but further changes in tax season '15.

Before I review key features of our new online product, I want to give you a glimpse at how the design changes for all our user interface were conceived and tested. In May of this year, we opened a state-of-the-art user experience lab in our corporate offices in Kansas City. This lab allows all of our client teams to have direct and regular and frequent interaction with our clients and was heavily leveraged in the creation and multiple iterations of usability testing to help us arrive at the new online product.

So what's different? Well, the first and most obvious change was to remove as much as we could from our workspace, moving search to a more common location at the top of the page. We also made the critical functions for the user, like accessing the prior year's return, common questions, FAQs and how to contact or send us feedback, always available on the left-hand navigation.

When I showed you the new digital homepage, I also mentioned the use of color to denote product selection. This is subtle, but it's an important point in order to create value perception when a user upgrades. We now indicate the product user has chosen clearly within the product via name and its associated color, allowing the user to be reminded of its price value at any step in the process.

But the most important work that we did to the interface was the work done on the navigation, to indicate to the user where they are in the tax interview. Color and iconography indicate what the user has accomplished, what's left, and how to take the next step.

This navigation technique not only represents how we plan to improve upon our conversion numbers in the upcoming tax season, it will also act as a bridge to the changes coming in the product in tax season '15, when the redesign will be fully complete.

In mobile, we've had an iPad app the last two tax seasons that has all the functionality of the online product and an interface that mimics its parent experience. Here you see the homepage from last season's app. This is the new iPad app homepage, which was designed not only to leverage the elements of our new online product, but also leverage the clean and simple look present in the new iOS 7 and iOS 7 apps.

We also brought forward the important work done to redesign our navigation to clearly indicate to the user where they are in the tax interview, but also keep in mind the tablet user by doing subtle things, like moving search to the bottom of the screen, where tablet users often find their thumbs useful.

So this year we will also build on the success of our Emerald Card launch last tax season in order to use the learnings to grow the number of digital users

who choose the Emerald Card to get their refund quickly and securely, as well as extending these clients' use of the Emerald Card, which Greg Quarles will discuss when I'm finished.

We also think about tax plus within our digital products as offering additional assisted services, which includes our best of both product. By using best of both, an online user has the ability to enter as much of the data themselves in order to get an idea of the expected refund or balance due before having a tax professional complete a full review, sign and file the return on behalf of the client.

And this is what I call a point of need screen, which the user gets when they hit an area of tax complexity or tax form that's not covered within the online tool. Even though they cannot complete the return themselves, we encourage them to leverage a tax professional using a best of both upgrade.

These tax plus enhancements, the high-level sneak peek of our new online product, and our overall hrblock.com should give you a broad overview what the user will see for the upcoming tax season and how day after day we go after our most important objective, to create a great customer experience.

This focus, though, has purposefully been product and experience changes targeting improvement in our funnel in order to extract the conversion results that we have and that I mentioned before. However, holistically re-imagining the product offered us the ability to pursue the next growth opportunity, the other funnel, the funnel that exists after a user files. I call this flipping the funnel, because we will now leverage our multi-year product plan to help us capitalize on three-year growth opportunities – pardon me, to help us capitalize on three growth opportunities in tax season '15 and beyond, first, helping clients resolve rejects; second, helping us retain more clients year over year; and, third, social referral.

Let me explain these a little further. The first opportunity to flip the funnel is by helping clients resolve a reject from the IRS. IRS rejects occur for numerous reasons, like due to a Social Security number mismatch, but this process is not as easy as it should be. There is a 20-point retention benefit for

clients with a reject versus those without. We know we can solve this, both by preventing filing of a rejected return and making the process smoother for customers when resolving rejects.

Second, I used TurboTax as the benchmark earlier in my presentation, and I'll use them again. There is a 10-point retention difference between their client base and ours. This represents a huge opportunity and was a big input and challenge to our product redesign to ensure that we have a future vision that will deliver a differentiated experience that will improve our ability to anticipate the needs of users and better personalize the product experience to bring clients back year after year. And if we're successful, our clients will share their experiences.

This is the third big opportunity, by flipping the funnel. Today, H&R Block already has a large base of social followers to leverage. In fact, our nearly 350,000 Facebook followers are the most in the tax preparation industry. If you extrapolate Facebook's statistics, which indicate their average user has about 230 friends, a mention of our brand by our current followers can generate 80 million impressions, and given the influence of social recommendations, these impressions matter.

Consider these statistics. Ninety percent of consumers believe brand recommendations when they come from their friends, and 71 percent of these are more likely to purchase after being recommended through social media. We have a powerful and growing asset in our social media followers, and we have the opportunity to activate this via our product.

I hope as you leave, in addition to the free software, you take away the following understanding about the H&R Block digital business. We are winning in the key battleground, the online category. And we expect to continue to do so, given our consistent focus on creating a great experience for our customers, through technology and product innovation. And we sit within a brand that has the ability to offer holistic services that are unmatched in the market, offering clients audit protection and representation, allowing them the flexibility to pay with their refund, get their refund on an Emerald Card, and

serving clients anywhere, any way, and any time they want to be served based on their needs throughout their life. Thank you.

Male: Sometimes things come up and you need a little extra money, we get it. With H&R Block's Emerald Advance, you could get a line of credit for up to \$1,000 right in time for the holidays. All you need is your latest pay stub and a photo ID. The Emerald Advance could put money in your pocket, and you don't even need a W-2. Call or go online to make an appointment, or just come on in. We're ready to help you.

Greg Quarles: Good morning. I'm Greg Quarles. I'm the president of financial services.

My role at H&R Block is to ensure that we deliver the plus in tax plus. This means providing our clients the best-in-class financial products and services they've come to rely on. I'm excited about the opportunity to talk with you today about the progress we've made over the past year and our strategic initiatives in tax plus.

Today I'd like to talk about the current financial services landscape, where we see H&R Block fitting in this market, how our tax plus products meet the needs of our clients, and the roadmap for our tax plus products in 2014 and beyond.

So let's start by talking about the landscape. Today, we're in the middle of a significant shift in retail banking with over 100 million consumers at stake in the U.S. This large population consists of underbanked, unbanked, and what I like to call as angry banked consumers. Together they are replacing a significant trend where the average American is moving away from traditional banking.

Many consumers are left behind by banks that have increased prices and limited services in the wake of interchange and overdraft price controls put in place as part of the Dodd-Frank financial reform. Consumers distrust of large banks has also grown following the financial crisis of 2008. That has brought into the market new players that offer inadequate solutions. Some are cool and gimmicky; others are short term and limited. All of this has resulted in consumers looking for alternatives.

Let's look at how the market has reacted to this. Fees that once subsidized the so-called free checking accounts that banks have offered over the last decade are quickly being eroded through regulatory changes. These changes are resulting in a steady decline of free checking account offers from a high of 76 percent just a few years ago to now only 39 percent of banks still offering them today.

With consumer financial service needs increasing at a time when access to traditional banking is declining, the product they are turning to is the general purpose reloadable prepaid card, with load volumes projected to exceed \$350 billion in 2014.

So why prepaid cards? Clearly, they are fulfilling the basic money management needs of the underserved consumer. In fact, prepaid cards are essentially the new checking account. These cards now offer many of the services once only found in traditional banking products, such as direct deposit and online bill pay.

So why does all this matter to H&R Block? It matters because H&R Block is well positioned to address this changing market landscape and meet the money management needs of these consumers. Consumers seek financial products and services from firms that they can trust, and H&R Block is that firm.

It matters, because about 50 percent of H&R Block clients are unbanked or underbanked. And for many of our clients, the tax event represents the most significant financial event of the year as their average refund is over \$2,600 and represents almost 10 percent of their annual income.

So it clearly matters to our clients. Now, what can we do about this? We are committed to providing value to our clients and helping them manage their money by offering responsible financial products and services. And as you've heard today, H&R Block's competitive advantage all starts with taxes, which enables us to leverage our trusted advisor relationship and offer integrated financial products while we still have the client at our tax desks.

This results in a very low cost of acquisition, which allows us to offer best-in-class financial products with a very low fee structure to the client. We are then able to grow these relationships through year-round life cycle marketing, which will in turn drive revenue opportunities and new product development, which is our tax plus strategy.

This is the essence of tax plus. We look at our clients' lives through tax, and we find ways to help. This is done through our outstanding line-up of tax plus products, refund transfer, a consumer convenience that allows our clients to have their taxes prepared and pay nothing out-of-pocket, peace of mind, our extended warranty service, Emerald Advance, our preseason line of credit, and our H&R Block Emerald prepaid MasterCard. Let me walk through each of these products in a little more detail.

Pay nothing out-of-pocket or refund transfer is a convenient and easy way for our clients to pay for their tax preparation fees with no money out-of-pocket. With the refund transfer, we establish a temporary bank account that allows customers to receive tax refunds net of tax preparation fees. The net proceeds are delivered to the customer via the Emerald Card, a direct deposit to an established customer bank account, or to a check. This is an extremely important product for a significant portion of our clients, as evidenced by the fact that we issued 5.4 million refund transfers in fiscal 2013.

As Kip pointed out earlier, we offer our clients audit support as part of our tax prep service at no additional cost. Peace of mind is an enhancement of our standard guarantee. It is a well-established product that we have offered for many years.

Through peace of mind, we also include audit representation and payment above \$5,500 of additional taxes. Clients purchase peace of mind because it gives them this additional protection. With IRS audits a real possibility for any taxpayer, this reinforces our value proposition. We are here to help our clients.

Our Emerald Advance line of credit is an award-winning small-dollar credit product. We designed this product under the FDIC – I'm an old regulator, I

should know that one – FDIC's small-dollar lending guidelines, and we actually received an award for that product. It was the FDIC Alliance for Economic Inclusion Star Award for developing innovative and responsible credit products to address the borrowing needs of the underserved consumers.

The Emerald Advance meets the specific credit needs for the clients when they need it most and is an excellent to higher-cost small-dollar credit offerings in the marketplace for this consumer.

Something else that cannot be overlooked is our unique position of utilizing the client's complete financial information to ascertain their ability to repay, which provides us a significant advantage over other small-dollar creditors in controlling credit risk. In addition, clients who come in for the Emerald Advance in the pre-season are highly likely to return to have their taxes prepared by an H&R Block tax professional. In fact, historically, over 90 percent of Emerald Advance clients return for tax preparation services.

And finally, you're going to see this a lot, but the crown jewel of our tax plus product suite, our award-winning H&R Block Emerald Card is now the third-largest prepaid program in the U.S., and our sites are becoming the leading prepaid card issuer in the industry. During tax season 2013, we issued 2.5 million Emerald Cards, with \$8.7 billion loaded to the cards. We believe the Emerald Card is the best prepaid card in the industry. Its combination of low fee structure, exceptional features, and convenience truly sets it apart from the rest.

The Emerald Card is loaded with features, not fees. We've put a lot of effort behind the card over the last couple of years and now have a product that offers cash-back rewards with over \$1 million already given back to clients to date, online banking with external account funding, bill pay, transfers to and from your line of credit, or your Emerald savings account, and our version of remote deposit capture that we call check to card. In fact, we were the first prepaid card in the industry to have remote deposit capture with instant availability, and much, much more.

These features come at a very low cost to the consumer. As mentioned earlier, our low cost of acquisition allows us to have an extremely low fee structure on the card. In fact, our fee structure is one of the lowest in the industry. There's no monthly fees for active users, no purchase or activation fees, no overdraft fees, no minimum balance, and zero usage fees. And our fee disclosure has been recognized as best in class. It's clear, concise, and limited to just five fees. These low fees, combined with our abundance of features, are the main reasons we're going to displace other cards in your wallet.

Based on the fees and features we've just outlined, the Emerald Card is very well positioned versus other programs. And don't just take my word for it. Bankrate.com rated the Emerald Card one of the top three prepaid cards in the entire industry, and a leading consumer magazine recently ranked it one of only three cards out of the prepaid industry that is recommended for consumers.

But this has been an evolution for the Emerald Card. As you can see, just a few years ago, the Emerald Card had limited features and functionality. Consumers would have their tax refund loaded to the card and would quickly spend the funds and never use the card again. However, my team's focus has been on adding the key features consumers were demanding, such as online and mobile banking, remote deposit capture, cash back rewards, and linked savings accounts. This has moved the Emerald Card from essentially a gift card to what is now a best-in-class prepaid card and an excellent alternative to traditional checking accounts.

By building these features of the card, our focus over the past year has been to drive these Emerald Card clients to year-round usage of the card. And our focus is driving results. Year-over-year card spend continues to increase. Another key metric we monitor is card activity outside of the tax season, which has increased 22 percent from this same time period last year. Our mobile banking engagement is up 628 percent year over year. Our online banking solution, which we call Emerald Online, launched less than a year ago through My H&R Block Account has had over 700,000 unique Emerald Card users. And year to date, we have sent over 68 million text messages to clients on balance inquiries, reload, and spend transactions.

And cardholder engagement continues to improve, as evidenced through our increased reload activity. Compared to second quarter of last year, we're up in all three categories of reloading, payroll direct deposit, government benefits, and cash reloading. We are also seeing total unique reloaders up 29 percent from this same time period last year, which is a critical metric for our year-round usage strategy.

So where do we see our roadmap for 2014 and beyond? It's pretty simple, more cards and more usage. And how are we going to achieve this? As Kip mentioned, we're going to get an Emerald Card in the hands of our sales force, our tax professionals. What we saw last tax season is that when a tax professional has an Emerald Card of their own, they have an 8-point increase in Emerald Card take rate with their clients, which makes sense, as they can speak to the outstanding benefits of the card, so we are offering an incentive for all tax professionals to obtain an Emerald Card and use it. And we believe once they do, they will drive take rates higher with our clients.

We are also aligning our field incentives to promote tax plus products. We are increasing training and awareness of all the tax plus products. And finally, we are developing enhanced life cycle marketing and distribution, and we'll continue to focus on enhanced product features and offerings.

Again, tax plus is all about delivering for our clients and for our shareholders. The financial services landscape is changing, and we know that tax plus matters to our clients and we can make a positive difference in their lives. We also believe strongly that H&R Block is well positioned to deliver on our tax plus strategy. And we are focused on execution with the commitment to look at our clients' lives through tax and find ways to help.

Thank you. I'll now turn it back over to Colby.

Colby Brown: All right. We're going to – that concludes the early morning part of our presentations. We're going to take a 15-minute break, during which time hopefully you can all use your Emerald Cards to go out and buy a nice holiday gift for your spouse or significant other. I had to get that one in. So we'll return at about 10:15 with the conclusion – conclusion of our presentations.

(BREAK).

Female: People don't realize that taxes and health care are connected. The Affordable Care Act means big changes this year when you file your taxes. I read the whole 900 pages. It literally took me weeks. I will give you a tax and health care review. I know the law. I have the solution. And I can help you figure it out. We're going to see this through together.

Colby Brown: OK, everyone. We are going to get started here. So if we can take our seats, Mark will be talking to us about the Affordable Care Act. So thank you, everyone.

Mark Ciaramitaro: Good morning, everyone. I'm Mark Ciaramitaro, and I lead new business and innovation at H&R Block. And as Bill mentioned, I've been at Block for over 13 years, during which I have led the company's launch of a host of new tax and financial products, including many that you heard about today. I'm really excited to lead our newest efforts in health care and enrollment services, and I'm passionate about the potential for Block to serve our clients in this emerging ecosystem.

Fasten your seatbelts, because we're going to cover a lot of ground in the next 45 minutes. My hope is that each of you will walk away with four major headlines. The first is that the impact of the Affordable Care Act is pervasive and complex, in particular as it relates to taxes. The second is that health reform has created a new intersection, as Bill mentioned, for consumers between health care and taxes. On their own, each of these arenas are already extremely complicated, but bringing them together has taken the complexity factor to a whole new level.

Where others may shy away from this challenge, we see opportunity and consequently believe that this emerging intersection has the potential to create new growth opportunities for Block to serve both our current and new clients.

Thirdly, you will see during our discussion today that we believe H&R Block is well-positioned to capitalize on these new opportunities, given our unique capabilities to take on complex consumer tasks while complying with the

government's multitude of regulations and requirements. We think our assets have consumer relevancy, not only in the tax space, but in the context of offering new health care-related services, as well.

Of course, the health care space is evolving before our eyes, with many twists and turns to come, as the provisions of the Affordable Care Act take shape in the midst of a dynamic political and regulatory environment. In that context, we can be sure of one thing. Whatever the opportunity for H&R Block, the story will take time to unfold, so stay tuned.

Here's the agenda for today. First, we're going to start by getting everyone on the same page regarding the Affordable Care Act, paying particular attention to the tax and health plan enrollment implications. Next, we're going to take a deeper dive into some of the tax specifics so that you can get a better understanding of what a significant segment of consumers will have to deal with when they file their taxes beginning in calendar year 2015.

There are actually over 40 changes to the federal tax code that will be triggered due to the Affordable Care Act. We're going to focus today on the major ones associated with the advanced tax credit and tax penalty calculations.

For the last two-plus years, we have fielded numerous qualitative and quantitative studies to get a deeper understanding of how consumers and H&R Block clients feel about health reform, as well as how they think they will behave. We will share with you some of the key headlines from this body of work.

As many of you know, the health care space is new ground for Block, so our marketing team used this consumer research and combined it with some even more recent work to develop a consumer positioning strategy and messaging campaign that we believe is differentiating, memorable and consistent with what consumers are looking for in terms of delivering access to credible, unbiased tax and health care expertise.

Finally, we will speak to a new opportunity for H&R Block to assist clients with a daunting health plan selection and enrollment process via our

partnership with GoHealth, using a customized H&R Block-branded version of their remote assisted technology platform.

So in order to really understand the Affordable Care Act, you need to understand the consumer segment that the law was created to address. Of the approximately 320 million U.S. residents, about 85 percent are currently covered under either employer-sponsored group plans, government programs like Medicaid, Medicare and CHIP, or individual, family and private health plans. This leaves about 15 percent, or almost 50 million people, with no health insurance at all. Increasing health coverage among this group is what the Affordable Care Act was in large measure enacted to achieve.

The Affordable Care Act is really the combination of two laws passed in March of 2010, the Patient Protection and Affordable Care Act and the health care provisions of the Health Care and Education Reconciliation Act. In its current form, the Affordable Care Act has literally thousands of pages of federal laws with more regulations created each and every day. No question, this is one of the most complex sets of government regulations ever enacted.

However, if you wanted to grasp what the law is trying to solve for in really simple, basic terms, it comes down to three things related to health insurance coverage – achieving a higher level of coverage quality; improving overall affordability, especially for low- to middle-income households; and expanding consumer access.

The law created some new mechanisms designed to work in unison to expand qualified coverage among those that are uninsured or unable to get coverage at affordable rates. The individual mandate, which is probably one of the more controversial aspects of the law, in essence requires most U.S. households to secure what the government defines as minimum essential health coverage or incur a tax penalty.

In contrast, among the more popular provisions of the Affordable Care Act are laws that create annual out-of-pocket maximums and prohibit insurance carrier medical underwriting and denials associated with pre-existing conditions. Additionally, for those of you that have older children up to age

26, they can now stay on your plans, according to the law. All plans must include, however, 10 minimum essential health benefits to be deemed a qualified health plan.

One of the signature aspects of the law was the creation of digital health marketplaces or exchanges designed to provide easy access to an online shopping experience that would provide a wide set of choices at competitive rates. There are currently 17 state-run marketplaces, with the federal government assuming responsibility for the remainder.

To further improve the affordability of plan premiums and co-pays, advanced tax credits and cost-reducing subsidies were introduced to provide mid- to lower-income households with access to government financial assistance. When the law was originally passed, expanded state Medicaid provisions were another key mechanism contemplated to expand coverage. However, the Supreme Court ruling in the summer of 2012 basically left it up to individual states to decide if they wanted to expand coverage for their state residents or not.

At this point, about half the states have decided to expand their Medicaid coverage levels. Unfortunately, low-income households residing in states that have not expanded coverage and who are above the state's Medicaid income limit, but below that tax credit threshold are simply out of luck.

Finally, the employer mandate, which now won't go into effect until 2015, is a sort of mirror image of the individual mandate. It was designed to motivate mid- to larger employers to provide qualified health coverage for their employees or pay a tax penalty. Altogether, these are, in effect, the primary engines that drive the implementation of the Affordable Care Act.

So all of you may ask, this is all well and good, Mark. What does this have to do with taxes? Well, the answer is, it has everything to do with taxes. In fact, the Affordable Care Act was so integrated with the federal tax code that you could argue the IRS will soon have almost as an important role in administering consumer participation with the law as the Department of

Health and Human Services. Moreover, it's been probably 20 years since we've seen this magnitude of change to the tax code.

So let's make it simple for everyone. First, you have the advanced tax credit, which is essentially a government carrot designed to reduce the net out-of-pocket premium costs for lower- to middle-income households. Then, you have tax penalties associated with the individual mandate, which start out as a toothpick and grow to be a baseball bat by 2016. The IRS and HHS refer to this penalty as the individual shared responsibility payment.

And finally, the role of the tax return, which before and during enrollment serves as the most complete source of information for determining tax credit eligibility and after as either a means of reconciling the actual premium tax credit or applying those tax penalties.

Now let's go a bit deeper into the major tax provisions. There are a number of terms used to describe the health care-related tax credits. Sometimes they're called subsidies, health care subsidies, and at other times premium credits. We prefer to use the term advanced tax credit, as it more accurately reflects how the credit actually works.

As I indicated, this tax credit exists to provide government financial assistance for low- to middle-income households to help reduce the taxpayer's share of the costs of those monthly insurance premiums. The credit can be used in advance of filing the tax return, but it's not spending money available to households. In this case, it's paid directly to the insurance carriers upon enrollment in a health plan.

The credit is only available to households who aren't currently insured or don't have access to affordable coverage. And it can be only acquired by enrolling in a qualified health plan via state-based or federal market-linked signup process.

Determining the exact amount of the advanced tax credit a household is entitled to receive is a similar complicated formula, because it's based on three factors – the estimated 2014 household income; the number of covered members in the household; and the taxpayers' rating area. In order to qualify,

a household must fall between the 100 percent to 400 percent of FPL, or federal poverty level. This includes income from all covered household members, including dependents who may have part-time jobs, and file a return.

These FPL income bands vary by household size and are set by the government. States that have not expanded Medicaid start at the 100 percent level, while those that have expanded start at effectively 138 percent. All states, however, cap at the 400 percent FPL level. Within these bands, the lower the income, the greater the number of household members, the higher the tax credit amount.

People are often surprised to hear that a family of four making over \$90,000 of household income actually qualifies for an advanced tax credit. The specific amount of the credit is then indexed off the second-lowest silver plan premium offered in the applicant's rating area and can't exceed a designated percent of their household income. You might ask, why the indexing off the silver plan level? Well, that's because the silver plan is considered by the government to provide the benchmark 70 percent coinsurance health coverage amount. Any household that decides to use the advanced tax credit to buy health insurance must by law file a tax return.

And finally, when that advanced tax credit is issued, it's based upon estimated household income. Therefore, it will need to be reconciled or trued up with the actual 2014 household income when that federal tax return is filed. More to come on this.

We took a closer look at our H&R Block clients to determine what proportion based upon household income and household size would qualify for an advanced tax credit and found that up to 37 percent could be eligible. However, I want to be clear that the analysis is based upon income and household size. It doesn't take into consideration their current insurance coverage. We're going to share with you more details on the eligibility of Block clients later.

Households that choose not to secure qualified coverage by the end of March 2014 and that don't fall into exemption categories will face a tax penalty when

they file their federal tax return in 2015. You should note that that penalty amount increases significantly over the next three years.

So the health reform timeline is dictated by law. As you know, open enrollment started October 1st and goes until March 31st of 2014. The new insurance coverage laws actually go into effect starting this coming January 1st. But the real tax consequences don't really come into play until 2015, when the 2014 federal tax return is filed. It is here when the advanced tax credit will be reconciled and the tax penalties will be assessed. And it is here where we expect we will begin to see the full impact of increased tax complexity unfold.

So let's go even deeper into what the tax filing year 2015 and beyond looks like as a result of the Affordable Care Act. Let's start with the new tax notices that households will receive. The 1095 series is probably the most prominent of new health care-related tax documents. The 1095 series is designed to indicate the insurance coverage status of a household, and most every covered household is going to receive a notice. Obviously, not getting a 1095 may mean that your household could have to pay that tax penalty.

There are currently three notice types – the 1095a, which is issued by the health marketplaces for households that enroll, the 1095b, issued by insurance carriers, military, self-insured entities, and smaller employers, and, finally, the 1095c, typically issued by larger employers. Like many other tax-related documents, these notices will be sent out in January and will be provided both to households and the IRS.

Now let's move into the tax filing process for 2015. As I mentioned, households that enrolled in a health plan (be in) the marketplaces and who use an advanced tax credit to reduce the cost of their health premiums will go through a true-up process. There are three primary steps in this process. Step one is a calculation of the actual premium tax credit amount based upon their actual 2014 household income and any other changes to household composition, such as getting married or adding a dependent.

By the way, when I use the term household income, it's actually an oversimplification. The Affordable Care Act calculates the actual premium tax credit off a covered household's modified adjusted gross income, or MAGI. MAGI is equivalent to the adjusted gross income from 937 of the 1040, plus non-taxable Social Security, tax-exempt interest, and even excluded foreign earned income. But for most consumers, their AGI is going to be a pretty close proxy.

The MAGI is then referenced to those FPL tables I mentioned previously and then multiplied by an applicable percentage amount which ranges from 2 percent to 9.5 percent. Finally, this total is then subtracted from the benchmark silver plan premium in the household specific rating area to get to that actual premium tax credit amount that household is entitled to.

Confused yet? Well, we aren't done. Step two compares this calculated actual premium tax credit to the advanced tax credit used by the consumer in 2014, with the difference coming either in the form of a refundable credit or an additional tax liability.

Finally, we come to step three, which is not well known. In the event of a tax credit liability, there are further table-based adjustments – here's the table – which creates a maximum tax liability per household, depending upon filing status and income.

Now let's slide over and talk households that are going to incur the tax penalty because they did not secure qualified coverage. That flat rate of \$95 per adult is an oft-cited number for non-coverage in 2014, along with the flat rate maximum family penalty of \$285. However, what is not well understood is that there are actually two methods of calculating the tax penalty amount. The second method actually subtracts their filing threshold from their MAGI and multiplies it by a percent. In 2014, it's 1 percent. But remember, it climbs to 2.5 percent by 2017. For example, an uncovered single person with a MAGI of \$55,000 would see a tax penalty amount of almost \$450.

While there's no explicit maximum penalty amount for the percentage method, according to the Affordable Care Act, the overall maximum tax penalty can't

exceed the national average annual premium cost for the lowest level bronze plan.

Here's the kicker. Between the two methods, the IRS will choose whatever penalty amount is greater. Consequently, our sense is that for many households, the impact of this percent of income method is going to come as a big surprise.

In most cases, the tax penalty amount will be deducted from the refund, but in the event of a taxes owed situation, the tax would be added to the balance due to the IRS. Now you may understand why this next slide is important.

The Affordable Care Act provides for exemptions from tax penalties for households that meet certain requirements, which we expect – not surprisingly – to become much more widely used in 2016 and '17 as those tax penalties increase. I'm not going to go into great detail around each of the exemptions, except to say that some of the exemptions are processed and issued by the marketplaces and in others can only be applied for with a filing of a federal tax return.

Probably their most popular exemptions would be related to economic hardship, short-term coverage gaps, and those not lawfully present. Interestingly, U.S. citizens who are overseas and residents of U.S. territories are deemed already covered under the Affordable Care Act and, therefore, they're not subject to tax penalties.

We've covered two major tax-related implications of the Affordable Care Act, the advanced tax credit true-up process and the tax penalty assessment process. However, I want to be clear, there's actually many more changes to the federal tax code that I haven't talked about, in fact, by some accounts, 46.

Probably the most prominent of these have to do with changes to medical expense deduction thresholds, increases in Medicare taxes for higher-income households, and new annual caps on flexible spending accounts, all of which actually already went into effect starting January 1st of this year.

So hopefully, in the last few minutes, you've gotten a better feel for the added tax complexity brought on by the Affordable Care Act, new insurance notices, the advanced tax credit reconciliation process, and tax penalty calculations, and other changes will all likely translate into new IRS schedules, worksheets, and forms. We may even see a new health care-related line item on the 1040, although we won't know for sure until the IRS releases 2014 forms next year.

While the onset of tax complexity will likely create confusion and anxiety for consumers, the truth is that for H&R Block we see this as yet another opportunity to demonstrate our formidable expertise. While it's too early for us to provide specifics around the magnitude of the opportunity to serve consumers, we see taxes – for those impacted by the Affordable Care Act, we actually see the potential in four areas, acquiring new clients relationships, given our health care-related tax expense, increased loyalty that results from the added value we can bring to our current clients in the tax preparation process, incremental health care tax form-based revenue, and finally, the positioning of our network of trained tax professionals to serve current do-it-yourself clients who now confront a much more complicated tax filing process.

Over the last two years, we have fielded numerous qualitative and quantitative studies to get a deeper understanding of how consumers and H&R Block clients feel about health reform. I'd like to share some of the key headlines from this work right now.

We've held focus groups all over the country. Over and over, we've heard the same things. Clients are confused about what their options are and what they need to do. They're concerned and anxious about the implications both on their health care situation and their taxes. They don't know where to go, who to trust, and the government and insurance carriers all fall short in their minds in terms of being a trusted resource for unbiased advice and assistance.

Given the complexity of the topic, many strongly prefer having the option to sit down face-to-face with an expert to discuss their unique situation. And finally, when asked where they would turn to, many participants, completely unprompted, said that H&R Block is a local resource and a brand they would look to.

When we ask them to go further in explaining why H&R Block seemed like the great fit for providing assistance, they described capabilities such as our tax expertise, our familiar retail locations in their community, and our track record working with the government on complex tasks. But above everything, what consumers saw in Block was a brand they felt they could trust to give them unbiased advice, be their advocate, and be there for them both now and in the future.

In addition to this expensive qualitative research, we also completed quantitative survey research, both with Block clients and a representative national panel. The findings from this work indicates that H&R Block clients have doubled the propensity to be both tax-credit-eligible and uninsured versus the overall U.S. population.

Our findings also are consistent with other national studies that have been published around purchase intent. The affordability of net out-of-pocket premium costs is by far and away their primary determiner of whether a household intends to enroll or not.

Most who can afford coverage want to sign up quickly, which explains the high traffic levels seen in the health marketplaces. The typical profile of an H&R Block client who plans to enroll makes logical sense. They're lower income, currently uninsured, have children present in the household, and typically file for an Earned Income Tax Credit.

Lastly, our national panel work indicates that given the increased tax complexity, there is the potential for share movement from DIY to assisted tax channels. This was based upon what consumers in our national panel indicated they would do, but we won't know for sure what the net behavioral impact is until at least 2015.

So to summarize, as you can see, the Affordable Care Act has created a clear and expanded intersection between taxes and health care, which will result in increased tax complexity. Many of our current and potential clients will be impacted, and we believe H&R Block has relevant assets and compelling solutions we can bring to this new game.

With this consumer research serving as the backdrop, let's move to how we're thinking about positioning ourselves in this emerging tax and health care space. In working to craft this positioning, we sought a way to suggest our compelling reason for being in this new health care space, to differentiate from the existing set of traditional carriers and government players, all while leveraging our unique assets. Importantly, whatever positioning we came up with we believed had to serve as an umbrella for both our tax expertise and our contemplated new health care-related services.

In addition to the research conclusions I've already shared, our consumer work taught us another very valuable lesson. When we brought consumers in a room to talk about health reform, we saw a pattern repeated over and over. The focus group participants would always start out somewhat disinterested and disengaged in the topic. And then as they learned more about the law and its potential impact on their lives, you could actually see the anxiety levels increase, which often culminated in anger and even outrage.

The anger was directed at the government, insurance companies, their employers, and even the media, and it became clear to us that what consumers wanted was yet not another entity preaching to them about what they had to do. What they really wanted was an antidote from all this noise, a safe harbor, a trusted source for unbiased advice and help.

With that as our foundation, our challenge was to come up with a messaging concept to embody what H&R Block could stand for in the overlapping space of taxes and health care, a concept that currently didn't exist, a concept that would be simple to understand, memorable, and especially ownable in the new world of digital media.

That concept became a mash-up of two words, help and health – Helpth. What is Helpth? Helpth is understanding health insurance, not just any help – friendly and unbiased help from H&R Block because the Affordable Care Act has made health care a tax issue. Our marketing team has since worked diligently to translate this positioning into the full range of marketing

expressions, including a dedicated health microsite, organic search, digital ads, e-mail, direct mail, and even office merchandizing.

One of the more tangible expressions of our health campaign will occur as our clients complete their tax filing with H&R Block. Each client will receive a customized health report which uses their tax information to estimate their eligibility for advanced tax credits and then calculates the maximum share of their insurance premium cost. We also educate clients about tax penalties that they could incur if they decide not to secure qualified coverage. We also informed them about government programs they may qualify for, such as Medicaid and CHIP.

The Helpth campaign is not only about taxes. It's also being used as our brand campaign to support our new to the market consumer proposition around helping consumers understand, select, and enroll in a health plan. Before going there, however, let's take a deeper dive into the uninsured population in America.

Previously, we shared that 15 percent of the U.S. population, or approximately 48 million people, were uninsured. Let's break that number down even more. Of the 48 million, approximately 11 million are not lawfully present and therefore not included in the coverage provisions of the Affordable Care Act.

We estimate approximately 13 million will not have – will not have or will not secure Medicaid coverage or they don't reside in a state that's expanded their coverage levels.

That leaves approximately 24 million that are tax credit eligible and that represent the total addressable market for the health marketplaces.

Descriptively, exactly who are these uninsured? Well, it may surprise you. According to the Kaiser Foundation, the majority of uninsured are low-income working families who are either self-employed or work for small businesses where health benefits are minimal or simply not available. Most are non-elderly adults who are overrepresented by minority groups, especially Hispanics.

Lastly, while the uninsured live all over the U.S., households residing in southern and western states have a somewhat higher propensity to be uninsured. The CBO and others use this data, along with additional surveys and behavioral analysis tied to the Affordable Care Act, to forecast the number of uninsured people that they believed would enroll in health plans via the marketplaces. Not surprisingly, the major factors in these forecasts involve employer coverage decisions, the net premium costs of insurance, and the impact of growing tax penalties.

The CBO analysis completed in May of this year is probably the most widely published, and it indicates 22 million uninsured will enroll in health plans via the marketplaces by 2016. Other estimates have hovered around that same level.

For those that do decide to enroll, let's talk about how the enrollment process actually works from beginning to end from a consumer standpoint. The first stage is the tax return, which serves as a sort of de facto benchmark for determining eligibility for that advanced tax credit. At this point, a consumer will have to weigh the benefits of health coverage and the tax credit against the cost of net out-of-pocket premium costs. Deciding not to get coverage means that there likely will face a tax penalty.

Let's assume the consumer's decided to enroll. They will have to actually visit their state-based marketplace or the federal site at HealthCare.gov to apply for their advanced tax credit. Assuming they can get into the website, they will need to create an account and then verify their identity remotely. Then, they will need to define their household composition, which isn't often as straightforward as you may think, and then provide 2014 estimated income information, all of which needs to be verified and cross-referenced with various connections with federal hub databases.

Once they've received their advanced tax credit verification, consumers will have to complete the daunting process of finding, comparing, and selecting the right health insurance plan. In some cases, they will have literally hundreds of plan options to choose from at varying premium costs, coinsurance, deductible, co-pay, and network levels.

After they've selected a health plan, they then must complete the enrollment and attestation process, where they can also add other coverage, such as dental or vision. And, finally, before they're officially enrolled, consumers must provide payment information to their insurance plan provider.

Whew. You know, the shopping metaphor put forth by the government that this would be as simple as booking a flight on Kayak or buying a TV from Amazon has been pretty much satirized to death. Let's talk about reality.

As has been well-documented, the user experience has been anything but smooth, with intimidating online applications, inaccessible websites, complicated comparison shopping, and, really importantly, no access to qualified help.

The experience was further complicated by the fact that, in addition to HealthCare.gov, there's over 17 standalone state-based exchanges, each with their own state funding levels, online application interfaces, operating protocols, call centers, Medicaid standards, and marketing campaigns. So it comes as no surprise when we checked in with our clients regarding what they were feeling, we're hearing questions, concerns, distrust, and even fear about what they should do next and where they can go for help.

It's in this consumer context that we introduced our new health care enrollment services program. Simply put, our objective with this new service is to help our clients both current and potential understand the impact of the Affordable Care Act, select the right health plan for their households, and then properly enroll to make sure they're getting all the financial assistance they deserve.

We are using a full block granted call center and technology platform to rollout this new service across the U.S., which provides access to licensed insurance agents able to service health plans from all the major carriers. In addition, we are testing a retail assistance approach, as Bill mentioned, which we're going to talk more about coming up.

To get out building and deploying this new service nationwide, we announced back in September that Block had entered into an agreement with GoHealth. Who is GoHealth? GoHealth operates out of Chicago. It's a privately held insurance software and services player with deep experience and expertise building and managing consumer-based insurance enrollment platforms. They also have extensive integrated call center capabilities, including remote agents licensed in all 50 states.

Another important part of what they bring to the table is their existing relationships with over 100-plus of the top health insurance carriers. And, yes, GoHealth is certified by the HHS and HealthCare.gov as a web-based broker entity.

Our operating structure with GoHealth is quite simple. Block uses its marketing clout and current client base to bring viable leaders into one of three branded enrollment interfaces – online, call center, and retail, where clients can select and enroll in a qualified health plan. We use a modified and integrated Block version of the GoHealth insurance technology platform. The platform has both a consumer front end and back end linkages with insurance carriers directly and through HealthCare.gov. Block and GoHealth then share the insurance commission revenue.

Using this branded platform, we can offer clients the full suite of assistance services, from estimating those tax credits to selecting and enrolling in health plans. Our agents are also trained, importantly, to assist clients with the daunting government application process. Heck, we'll even set up a tax appointment.

Let's take a closer look at this online interface that we've built with GoHealth. As you can see, the interface is fully block-granted using our "Helph" message. The interface is built to offer persistent access to live assistance at any time via phone or chat, as well as the ability to find a tax office.

Our site offers a way via a simple online questionnaire to estimate the user's advanced tax credit, but for verified Block clients, we actually offer the ability

to import their actual 2012 MAGI to greatly improve the accuracy of their advanced tax credit estimate.

We then apply this estimated advanced tax credit to their health plans options showing users what they really want to know, which is their net out-of-pocket cost for various health plans available to them. The interface also offers users tools to filter and rank their plan options by such factors as coinsurance level, deductible amount, co-pay, and max out-of-pocket costs.

Before moving to the government application, users create a fully integrated My Block account so that they have easy year-round access to their health care information. After completing the government application, they are redirected back to the site. We then confirm their enrollment and provide information links for their chosen plan. Finally, we help collect payment information. And, of course, users can use their Emerald Card to provide the premium payment.

I want to emphasize that during this entire enrollment process, users have continuous access to licensed agents who can assist them with questions or, frankly, pick up the ball and complete the enrollment process for them.

As I mentioned, in addition to offering enrollment services via our online and call center platform, we're testing providing essentially the same suite of enrollment services in our retail offices. We're offering these services in 30 Block offices in the Phoenix market, staffed with fully licensed, certified, and trained health care advisors. We're supporting the product with a full suite of local marketing tactics including TV, radio, out of home, direct mail, retail signage, as well as leveraging leads from our Emerald Advance program.

Our rationale for testing this enrollment channel proposition is based upon our retail thesis that consumers are seeking a trusted retail brand like Block to provide face-to-face enrollment services, and that we have many of the key assets and service infrastructure already in place. Moreover, in our future years, that annual enrollment window may present an opportunity for Block to acquire and retain clients just prior to tax season.

This product will also teach us about the potential for consumer demand, the right staffing model, and help us understand the overall tax synergies, so stay tuned.

Here's an example of one of the popular billboards you will see – you would see in Phoenix. The response to our health message there has been surprisingly strong. We're even wrapping commuter trains with our Helpth message.

So we've covered a lot of ground today talking about health care and H&R Block. Hopefully we've given you a sense of the new level of complexity brought into play by the Affordable Care Act, both with taxes and health plan enrollment, and why we believe this has potential to create new opportunities for us.

Hopefully it's clear, many of our current and potential clients are being impacted, and we believe we are well positioned to serve them using a formidable set of leveragable brand assets. All that being said, this law is still unfolding as we speak, and it will frankly take time for any opportunity to unfold in a manner that can create tangible shareholder value.

Thank you very much.

Male: Let's keep this simple. Here's health insurance, and here's help. What goes here? Helpth, help getting health insurance. A new service from H&R Block. In three simple steps, an H&R Block health care advisor will help you understand, select, and enroll. Helpth. It's as simple as that. Only from H&R Block. Schedule your appointment with a health care advisor today at Helpth.com or call 1-800-HR-BLOCK.

Greg Macfarlane: Every time I get to see Mark do that presentation, which at this point is a number of times, I continue to be amazed at just the unbelievable opportunities that we have at Block.

So, good morning. I'm Greg Macfarlane. And I'd like to spend our remaining time together reviewing the strategic initiatives that we've outlined throughout

the day with you. I'll also provide financial perspective in a more specific context.

Now, before doing so, I do want to take a few moments to talk about our second quarter results, which we did release yesterday for you all. Now, as you know, the second quarter is a seasonally slow quarter for us, but there are a few areas in which (inaudible) wanted to offer some specific thoughts.

First, revenues for the quarter were \$134 million, down slightly from the prior year. Timing differences in our Australian operations and lower interest income on our declining mortgage portfolio drove revenues lower for the quarter. Offsetting this decline, Emerald Card fees increased modestly due to the higher off-season card usage that Greg Quarles mentioned earlier. Now, while we're pleased with our initial off-season card results, our success in establishing Emerald Card as a year-round product will be best measured in the years to come.

Next, adjusted pre-tax loss from continuing operations was \$183 million, an increase of \$21 million compared to the prior year. On an adjusted basis, operating expenses increased \$19 million to \$311 million, largely due to timing of seasonal compensation, higher legal fees, and depreciation expense. This was partially offset by lower interest expense and mortgage loan loss provisions.

Finally, on an earnings per share basis, our adjusted net loss from continuing operations was a loss of \$0.42 per share, or \$0.05 higher than the prior year. While our losses are trending modestly higher year to date, most of this variance is timing and nature. And in a business as seasonal as ours, it's difficult to read too much into the off-season results. We continue to target 30 percent EBITDA margins for the full year, and I'll offer a few additional details on our financial outlook a little bit later.

Turning to discontinued operations, which includes the results of Sand Canyon, our second quarter net loss of \$2 million compared to \$4 million in the prior year. During the second quarter, new representation and warranty-related claims at Sand Canyon were less than \$1 million. Sand Canyon's

accrual for representation and warranty obligations remains unchanged at \$159 million, and they have additional equity of approximately \$250 million.

As a reminder, Sand Canyon is engaged in bulk settlement discussions with counterparties from whom it has received a significant majority of its asserted claims. Though there is still work ahead, Sand Canyon continues to make important strides in its efforts to bring this loss contingency to its conclusion.

So with that, let's turn to the investment thesis here at H&R Block. So when we talk about Block, there are really three things that we focus on. We think – and you've heard a lot today of our plans around growth. We've also believed that we prevent a tremendous amount of value for shareholders, and that's supported what we describe as a low-risk environment.

Now, specifically supporting these statements are really these thoughts. We are excited to participate in a predictable and growing core business. We have favorable macro conditions. Unemployment continues to get better. The Affordable Care Act are two great examples of that.

The – financial services products that we offer through our tax plus strategies have had good traction, and we look forward to continuing to grow those. Next, digital expansion. We've had a great run here, and we continue to believe this tax season and tax seasons beyond will be a great story from our perspective.

Complementing all that, of course, is international growth. It's roughly \$250 million of our overall revenues, and it's growing at the fastest rate within the portfolio of businesses we operate. On the value side, that translates to a large and continued amount of cash flow generation. We do require some of that to be reinvested back into the business, and we generally describe that as low amount CAPEX required to fund H&R Block. That has allowed us to translate that and support a dividend that we've been paying for 50-plus years and also have bought back a fair amount of shares.

The mortgage side, with Sand Canyon, we believe ultimately is really a time-based solution. I provided some thoughts there, and during the question

session, if you've got some more things you want to talk about, I'm happy to answer them then.

And the other thing I'd point out is really around management. I think it's nice to see some of the same people here year to year, but most importantly from a business model that H&R Block operates, it's the consistency of strategy and the consistency of messaging that goes out to our field to be able to execute H&R Block's business.

So now let talk about each one a bit more specifically with you. I'm going to start, really, with the predictable and growing core business. This graph you've seen from us many times before, it goes back into the 1950s, and it shows the number of tax returns in a green line filed in the United States. It's almost a flat line that goes up 1 percent to 2 percent per year.

I've also put on here a blue line which indicates non-farm employment over that same time period in the United States. And what you notice is there's a high correlation between the two, with unemployment being the leading factor and the green line, the number of returns we believe the lagging factor. If you actually ran a regression on this, you'd be somewhere up in the 97 percent to 98 percent R-squared correlation.

The other thing you notice from these two lines is a disconnect in the last two years. And Bill earlier today outlined a more detailed view of what we think happened. And this is a summary. There are specific and very pervasive thoughts around tax fraud that the IRS has focused in on. That has declined the number of returns.

We also know that the nature and the tenure of the recovery from the economic recession has impacted tax filing behaviors. And we've also seen just delays in the IRS, and the communications get wrapped around that, and all the noise around the federal government impacting people's behaviors.

We believe that these are not permanent in nature. And we believe over the medium and long term that tax returns will continue to grow along with the labor of the non-farm employment rate at 1 percent to 2 percent. We do,

however, believe that these phenomena that affected last year's seasons will continue to impact this next tax season.

Jason and other people talked to you a little bit about how people like to file their taxes. Fundamentally, about 6 out of 10 people in the United States like to get help. Four out of 10 people actually like to do it themselves. And that number hasn't changed. What has changed is in those 40 percent of Americans that like to do taxes themselves, the nature in which they do it.

It wasn't that long ago you would go down to the post office, you would pick up your tax forms, you would go home to your kitchen table with a stack of receipts, with a calculator, and you'd fill your taxes in. Those people have chosen to outsource the calculations to software. That's what has happened, and that's what's been fueling the DIY industry within the overall tax preparation space.

The other phenomena – and it's best illustrated in this next page – is really around how the DIY space is developing. What you see here is a clear and distinct growth towards online distribution in the DIY space. And we believe that's permanent and that's also our major focus as an organization. There will always be a role – opportunity for desktop development and distribution of product, but unfortunately the reality is that when you sell a piece of software through a retailer, the economics are disproportionately in favor of the retailer.

The other benefit actually from a client perspective is the online product is typically a richer experience for them. So those two are the main factors while we continue to believe that online will be the growth area here.

The other way to look at this industry is really from the dollars that are generated. In total, we estimate about \$19 billion of revenue are generated within the tax preparation industry, and that breaks down to roughly 90 percent are spent on people to get assistance and 10 percent are spent on the DIY client.

Another way to look at this \$19 billion is by competitor. And if you added up all of the branded competitors, both in the DIY space, as well as in the assisted space, you still wouldn't be as large as H&R Block is. However,

H&R Block only represents 15 percent of the overall industry, and we have room to grow.

Another thing you might notice on this graph, for those of you that have followed us over the years, is we've actually broken out CPAs and independents. Historically you've lumped them together. But as we spent more time thinking about this, we need to talk about them as two separate parts of the industry. CPAs are about 27 percent of the industry, and independents are 44 percent.

And I actually want to focus a little bit more on independents for you today. This graph shows you market share over the last three years. If you notice in 2010 to 2013, there's been shifts in the market share. Block has picked up share, and some of the branded competitors have, too. That has come at the direct expense of independents. In those three-year period, independents have lost about 1 percent market share.

Who are the independents? What do they do? Well, let me start with a pop quiz for you. What do you think it would require for you to get a PTIN, which is the prepared tax initiative number. It's the number you need to get from the IRS to be able to sign someone's return, \$63, a Social Security number, and the ability to go online to fill in the application form.

Second question. What do you think it takes here in this state of New York to gets a barber's license? I looked it up, so I'm not planning on being a barber, but I know what it would take. So you would need to do about 400 hours of classroom effort, which typically the tuition is between \$2,000 to \$4,000. You then need to complete two years of apprenticeship under the licensed barber. You then make an application, which includes a physical requirements, and at that point, you can get a barber's license in the state of New York.

Now, we're not commenting on whether that's right or wrong for barbers, but we're trying to make the point is that there's something fundamentally wrong with a situation where we're preparing the most important financial event for

most Americans and there are basically no standards in place to help to govern that.

What that translates to from my perspective and our perspective is low barriers to entry. What you see here is of the 40 million returns that are done by independents, about half of them are people that are doing less than 100 units. Some of them clearly are doing a good job, but we believe that many of them are not.

The other thing you notice from a pricing perspective is huge variation. Why not? And this isn't good or bad. It's just an observation. What should matter, though, is the quality of work that's getting done by the independent channel. And what we're showing you here is our proxy for quality. So if you notice on the far column, we're indicating e-file rejection rate. Now, there are a number of reasons why a return may be rejected by the government, but in many cases, we believe this is an indication of quality. I've noted H&R Block here, by the way, at 4.5 percent, OK? I've also shown you a number of levels within the independent space, and then right below H&R Block, you can see independents at roughly twice the reject rate that we have.

The other thing you need to know is, once you get your sort of license and you sort of set up a business and you've gotten your friends and your family, or your affinity group at your church or whatever it happens to be, how do you grow your business? Well, at some point, it comes down to marketing dollars.

And so what we see – and we see this during the tax season – is a lot of crazy stuff. And any of you who have been following us during the tax season will begin to have an eagle eye for these signs, because they pop up like everywhere. Now, I will point out to you, the one that says \$3,169, that sign is illegal. OK? And if were to do something like that, we would be in big trouble. Unfortunately – and I didn't go out of my way to pick what I thought were the worst examples – these are typical things we see out there.

The other thing you notice is that garage that someone's just handing up a tax sign. It's shocking the kind of quality in the kind of places that people get

their taxes done. And, again, we're not making comments on that. They may do a great job. But who gets their taxes done there? Truthfully.

When we had this conversation about independents, I think it's important to talk about fraud. It is a major problem in the tax preparation industry. The IRS last year estimated somewhere between \$12 billion to \$14 billion of improperly issued Earned Income Tax Credit payments. By the way, this form is on about 20 percent of all returns in the United States.

Over the last 10 years, the estimate is about 20 percent of those were done improperly. Under federal law, every government agency is required to disclose their highest risk financial transactions, put a plan in place and to address that. This is the only item the IRS has mentioned consistently, is this issue.

The other thing I'll point out to you is this is not just about the independent. In the branded space, the fourth-largest branded competitor in our space was just under court order to stop operations in large part due to fraud. This issue also is not just about the assisted space, OK? The work to date with the IRS has been very much focused in on bringing higher standards within the assisted space, which we're very supportive of, and Bill mentioned to you – mentioned that earlier.

This is also an issue that impacts the DIY space. Back in 2008, there were 22.8 million returns that included an Earned Income credit form on it. That number has grown to 26 million, which is a reflection of the recession, and these are people in many cases that need that money.

What we noticed, however, is a very important shift in behavior. As standards have gone up within the assisted space, there has been a disproportionate amount of people that now – the DIY space that have lower standards to do their earned income credit form work. And that is suspicious to us. The other thing I'll point out to you which I find quite interesting is without this shift over this time period, the DIY space would have declined.

Now, talking more broadly about the digital DIY space, the digital space, as you remember, about 64 percent of it is done online, 20 percent is done on

desktop, 11 percent pen and paper, and 5 percent at the Free File Alliance. What the graph focuses in on is the online space.

Block has worked quite hard and will continue to work quite hard to continue to win market share here. It is our number-one focus within the DIY space, and I think Jason did a nice job today explaining the details behind our plan this year.

When I step back and think about H&R Block in total, there are really four things that come to my mind about our competitive advantages. Our scale is unmatched. The text professionals and our ability to source those people, scale them up during the seasonal period, and deliver great value is really important, the brand that we've been able to develop, and really the innovation that we bring.

Ultimately, what makes Block special is our ability to do your taxes anywhere, anyway, anytime you want, and that's important, because the average American starts filing taxes in their late teens and then they file every year the rest of their life. They die, and they have one more year to get done, OK? We want to be considered every step of the way, regardless of where you are in your life cycle.

Specific to our scale – historically, by the way, we've just shown the continental United States. I asked the question, let's just make sure they know we've got stores in Alaska and Hawaii. It may not be as obvious, but we do have stores there.

What's really more important here is the question that I get from a lot of people is, how as a retailer you're able to open up only three or four months a year and still have 30 percent margins? Well, because we've been doing this for a long time. We know what the store profile needs to look like. We know where it needs to be. We know what the right metrics are. We know how to staff those models. We know how to do the local marketing around this. This is a skill that has been developed over decades at Block.

The next thing is really our people. And you've had a chance today to meet a couple of our tax professionals. If you've not yet had a chance to talk to them,

please do so. They will – are capable in all of the cases in this room to do your taxes, even for them just to do a second look on how you've used for taxes is a good idea.

I used to use a CPA. I moved to Block. I just picked a guy in my neighborhood, and I'll tell you something, as a CFO, I'm very particular. He's done a nice job, and I know they will do a nice job for you, as well.

The ability for Block to hire tax professionals is an essential part of our brand. Our tax professionals are not people that fold sweaters at Gap at Christmastime. These are people who sit across the table and, for our clients, are H&R Block. They need to be trained. They need to understand how to identify customer needs and deliver those. And our ability to find those in a seasonal basis and staff up over 60,000 people during a tight timeframe is a very impressive feat.

Right now, we're sort of in the tail end of that. We're going to the next tax season. I got to see it live last year. I got to see it again this year. It's really quite remarkable. We put a lot of money and effort into our tax professionals, because we understand that this is ultimately how H&R Block is going to be here for another 59 years.

Another thing about tax professionals while I'm talking about is really one of tenure. We work harder recruiting new tax professionals every year. We turn those people into second year tax pros, third year tax pros. Over the years, they'll build up a book of business. We have a nice, mature profile of our tax professionals. We have many that have been here for more than 16 years, but we also have a number of people who have been here less than 10 years. It's all part of a model that we've developed over many years to understand how this should look.

The other thing that matters is, from a client perspective, there's a tight correlation between the amount of years that a tax professional's worked with us and the clients retention. Kip and his team have been very focused in understanding what a client's needs are and the matching them with the exact right tax professional, because we know that impacts retention. We don't

always necessarily send you to the best tax pro in terms of the most qualified. What we try to define is, what's the best for you?

This retention more broadly has translated to what I consider to be a pretty high and pretty – something we're pretty proud about, which is 71 percent overall client retention within our assisted space. When we do an apples-to-apples comparison with our other branded competitors in the assisted space, we are 10 points higher, and there are a lot of reasons for that, and something we're quite proud of.

The H&R Block brand is not just pervasive in that we had the same level of awareness as a McDonalds, Wal-Mart, or Coca-Cola. What I find more impressive is the fact that we're known for the right reasons, which is taxes, expertise, and trust. The reason we have this type of awareness and known for the right things isn't just the fact that we spent hundreds of millions of dollars a year in marketing and have done so for decades, but it's also that we're able to do 20 million returns per year for decades successfully for most Americans. That is something that's very hard for any competitor to replicate.

In terms of our tax plus strategy, not only did we invent the industry, which was great 50 years ago, but we continue to think hard about, how do we bring innovation every day to our clients' lives? And throughout today, you've heard a number of examples of those. The ultimate testament to our innovation is my simple observation that the majority of our competitors wait to see what we do and then they copy it.

The Emerald Card, by the way, of course, I have mine somewhere in my pocket here, is a great product. In the last two years, I think you've seen us develop what was a gift card into truly a best-in-class product. That's translated to 2.5 million cards that were issued last year, with about \$9 billion of deposits.

What I find interesting as a financial person, really, is the opportunity to develop revenue and profit off that. These are our two biggest benchmark competitors here, being GreenDot and NetSpend, great competitors, and we've learned a lot from them. They generate roughly \$120 to \$145 per card per

year. Right now, we're about \$39. I do not believe that we're going to get to the \$120 range for a number of structural reasons, but our ability to get to \$60, \$70 becomes very interesting.

I actually am more focused in on year-round usage in the short term, because I know at some point we'll be able to take that 2.5 million cards and talk about a much larger number. The magic for us is to understand, how do we displace other people's debit cards in their pockets? How do we generate new users and turn that into a year-end relationship?

Refund transfers is an important product. I don't need to spend too much time here. The key point I think for you from a model perspective is we're going to charge for it this year, OK? We're not going to talk about how much, but we are going to charge for it.

Now, let me talk about the bank, which I know a lot of you have already been hitting me up for questions on this. And I'm going to kind of go back in history a little bit. First and foremost, we love financial services products. Emerald Card, Emerald Advance, the refund transfer are all products that go through our bank. That doesn't change at all here.

What has changed in the regulatory environment that we all now operate in. We came to the conclusion a year-plus ago that having a bank was not in the right sort of spirit or strategy for an investment thesis for H&R Block. We announced that, shared our decision with you, and have been working quite hard on finding a way to settle that down.

Early this summer, we announced a transaction with Republic Bank. That was a culmination of a process that we partnered with Goldman Sachs and First Annapolis on. That generated a lot of interest. In fact, we had over 100 bank partners that wanted to do business with us.

And that shouldn't surprise you. We have 22 million clients. We have great distribution. We have a great brand. And we have a great financial opportunity to add value to our clients' lives. So naturally, many banks were interested. We are trying to solve for a very specific set of outcomes. And

from that list of 100, we narrowed it down to six banks, one of which was Republic.

We were able at that point to successfully strike a commercial arrangement. We outlined what we thought that dilution impact would be to do. We shared that with you early this year. The second thing we worked quite hard with Republic is to operationally set up that program that would have really been ready to go for this tax season. And that's actually the most disappointing part of, unfortunately, the third part, which is the regulatory side, which didn't work out.

Importantly, from the regulatory side, it is our firm belief it was not an H&R Block issue. Now, the disappointing part was, if we had gotten the regulatory support, we actually probably would have been (stood up) for this tax season. So that's where we are from the Republic situation.

Back in the (fall time), we announced that we were going to go in a different direction, and we've re-engaged both Goldman Sachs and First Annapolis. What we had the benefit of this time is a lot of knowledge we built up the first round. We understand what the commercial terms are likely to look like, and we understand the operational requirements. And, frankly, we had (all the agreements) very much negotiated and ready to go.

So we are right now working very hard with several partners to find the right solution for Block. I think the outcome will be the same, by the way, and we believe this is an important thing for you to understand, that this will be solved for next year's tax season.

Now, there are other people involved in that decision, including regulators, so we're always going to have to be cautious about that, but we believe, based on all this knowledge we've developed, that's a very likely outcome at this point.

Health care and taxes. I guess from an investor perspective, my observation would be if you ever wanted a nice pure play way to participate in health care reform in the United States, I think H&R Block probably has a strong argument there. I think Mark Ciaramitaro did an excellent job of explaining to you the nuances, the subtleties, the complexities, and the realities of health

care as it relates to taxes, and I hope you agree with us that we think there's a real way for H&R Block to add value to our clients' lives and generate real return for you as shareholders.

Another nice thing about H&R Block is we do have a long track record of generating earnings. What you can see here is a graph that goes back to 1981, all the way through last tax season. It was not lost on us that from 2009 to 2012 those earnings declined. Bill, as the CEO of the company, took this very seriously, and I want to talk about actually how we were able to increase our margins, which translated to higher earnings.

What you can see here – and I'll come back to that thought in a moment – is really how we benchmark our EBITDA margins versus in this case the S&P and the S&P 500 consumer portfolio of companies. When we say we have high margins, this is why we say that.

Now, the increase from last year, the four points from 26 percent to 30 percent, was a direct outcome of our not being happy with the profile of those earnings decline for those four seasons. We committed to you \$85 million to \$100 million worth of cost reductions, and we exceeded that and delivered that to the bottom line.

The other thing we've talked about with you is what we think the right range for our margin percentage needs to be, and that's somewhere between 27 percent to 32 percent. Our objective is not to have the margin percentage go up and up and up, but to actually translate that to revenue growth that translates to margin dollar expansion, OK? There's a formula that we work here for now for this tax season we're committing to be approximately 30 percent EBITDA margins, which was in line with last year.

Capital allocation is also another topic I get hit up on a lot, so let me kind of refresh how we think about that at Block. In order to support a company that's got a billion – a valuation of \$7 billion to \$8 billion right now, we need to understand what it needs to be to continue to generate that type of ongoing cash flow.

First is the operational needs, and that would get complemented by the liquidity profile, the high seasonal business. And I'm going to talk about these concepts a little bit more in the next few pages.

Once we sort of make sure that we've got enough money to run the business day-to-day, we then talk about the strategic decisions that we want to move in. In the last few years, what that's looked like is actually us shedding companies and simplifying the business, generating up a lot of cash, which was also at some point used to buy back shares.

Third on our list is really around dividends. We've been paying dividends for 50-plus years. We're quite proud of that, and we're very committed to making sure that we provide that to you as shareholders.

And then lastly, once we've taken care of one, two and three, as we've had excess cash, which is our typical position, we then talk about, how do we then allocate that back into the business and/or to shareholders directly? What's important for you to understand is the model that we use is focused really on three things, around discipline, accountability, and a clear view on value. And what value for us means is ultimately around shareholder returns. The reason you spend a dollar is to generate value. And this is something we spent a lot of time in the last few years educating our employees about.

In terms of the capital required to support H&R Block, we consider it fairly modest. It's important for you to understand as a large retailer we do need to spend money on paint and carpets and signs and furniture. It's also important for you to know, as a technology company, that we need to invest in software development and hardware. But in both cases, because we're at scale, we're more in a refreshed type of a model right now. We will invest money into the business. We think in general that's about 3 percent of revenues. We have last year and this year needed to spend more than that, because a few prior years it was under investment cycle, and we felt that was unacceptable.

Liquidity is a very important part about being in this seasonal business. This graph actually shows you about four seasons' worth of information. The peak day in which I have cash on our balance sheet really sits not at the end of

April, but typically sometime in the middle of May, when all the refund transfers settle, refunds have come through, we've collected our final fees, (candidacies and) has settled down.

So at that high water mark of May, every day after that, because I'm pretty much closed for business until the following winter, I'm paying payroll, making rent payments, investing in things, and so we burn down a fair amount of cash in the off-season.

Historically, Block has maintained a low investment-grade rating to provide access to commercial paper which was viewed as an efficient way to be able to fund those needs. That gets complemented by \$1.5 billion committed line of credit that were renewed successfully the summer before. That's what we've done historically to manage our liquidity.

Whatever direction we may go in or not go in, this will be an important decision to make sure that we feel comfortable that we can provide for the liquidity needs of the business, because this is the fastest way to lose value, by not having the money to pay payroll, pay your rent checks, or make investments.

Another important point of the discussion we've had with you today is really our focus on who we are and what we do well in the world. It wasn't that long ago that we had a lot of distractions. And what we are today is a much more focused business. This is who we are. We are a tax plus business model.

From a shareholder perspective, we've generated a lot of cash. We send that back to you in our normal dividend. We also have been able to buy back shares successfully. We do maintain discipline in how we think about share repurchases. Our view is we have to have an internal view of value, and then we compare that to the market view, and then we'll exercise it to the point which we think is appropriate. At the bottom, I've indicated the prices at which those shares were bought, and I think at this point it's fair to say that it turned out to be a good investment.

Specific to the dividend, we pay about 2.8 percent, 2.9 percent right now, which is a healthy dividend. There's not really not much else on this page right now to talk about.

What that ultimately means from your perspective is total shareholder return, which is really what it comes down to. The graph shows you really in the last year or so – the black being the S&P 500, and green being H&R Block performance.

On the one-, three- and five-year benchmarks we've shown here in the upper-left-hand quadrant, if you notice in the one- and three-year, H&R Block has been a good investment, relevant to the broader market. On the five-year, it's not been. And I will make the – sort of the observation that it was also the time period at which subprime mortgages melt down, Option One, Sand Canyon, negatively impacted Block. And, of course, we're working through that still to this day.

So that's really how we think about Block. We think Block is a good investment from a growth perspective. We think that's supported with a real value story. And then, of course, the risk profile that we offer.

Now, we're going to have a chance to do Q&A here in a minute, but what I want to do is actually give you some specific thoughts relevant to the market this year, as well as to the company for this year. So let me kind of go through line item by line item. This is more for the modelers in the crowd, as it were.

So the first just really around tax filings. You heard Bill mentioned this earlier today. It wasn't that long ago that we were still thinking 1 percent to 1.5 percent, but as we really spent a lot of time this summer and fall digging into the economic data, the tax filing data, doing some surveys, our conclusion is this year will be more 0 percent to 1 percent growth. However, we don't think that's permanent in nature. And when you think more three years out, it will go back to the normal 1 percent to 2 percent.

Specific to the delay of the seasons start. Many of you are aware that the IRS announced not long ago there would be a one- to two-week delay. This

happened last year, although it happened – the announcement came out later. We spent a lot of time in the off-season looking at how that impacted our business, our response, customer reaction. And we learned a lot from that last year. We talked about hours of availability, tax pro staffing levels, the quality and quantity of staffing. We talked about our marketing schemes. We looked at the amount of debt that we have to have outstanding. We looked at our Emerald Advance patterns, around losses and additional interest income. We looked at every dimension you can think of, and we believe that a one- to two-week delay that happens will cost incremental money. We don't know if it's going to be one week or two weeks, and that's one of the reasons there's a bit of a range there.

We do think on a more long and medium-term view that this is more than new normal. So we do think that the tax season will begin opening up a little bit later in January, just more mechanically.

In terms of complexity, the magic question, what happens if there is tax code simplification? And I'd just say, go read the Affordable Care Act and come back and ask that question. We just don't see this as a legitimate threat in the short or medium term.

In terms of consolidation, we've talked about the independents. More broadly, we continue to believe the number of tax preparers in the United States will decline. H&R Block has solutions to help that. We actually will constantly look at buying small operators. There are some good quality ones out there. So we will benefit from that.

Now, in terms of H&R Block specifically, in terms of our EBITDA margin, we think we'll be in around 30 percent. That number may be impacted by the delay we talked about in the previous page and in the question-and-answer period. I can talk about that more specifically if you want me to.

We have opportunities to continue to reduce cost at Block. This meeting, by the way, is an example of this. So in addition to not having jack-hammering this year, the amount of money we spent to do it at the palace compared to what we're being charged here, which is free, represents the kinds of things we

make decisions on every day. So we'll continue to generate productivity, but the thought is, as we're able to save money in one thing, we'll try to invest that back into top-line growth, because we're not happy with what our revenue profile has looked like.

Specifically to the bank transaction, we have incurred cost. We've had legal costs. We've had advisor costs. We've had accounting costs. When we announced the Republic transaction last quarter, the accountants recognized that as an expense. This past quarter, with the deal being – with the Republic deal being backed off, we actually reversed those expenses, but they're sitting there in the balance sheet waiting for some point in the future then to be recognized.

At the point at which we do strike a deal, our belief continues to be – we'll see about \$0.6 to \$0.9 of dilution. We know that because we've had a lot of third-party negotiations. We actually had a live deal that was accepted. And we understand very specifically what the costs are going to be here.

So that unfortunately or fortunately will be somewhat a function of what deal we strike. There may be some probability outside of that range, but this is our best estimate. The other benefit with the bank transaction, of course, is the moment at which the bank goes away, is we'll be able to take all the statutory (inaudible) bank back at the H&R Block level. That number is somewhere between \$100 million to \$150 million, which we'd then be able to redeploy through our capital allocation waterfall.

In terms of health care reform, we're going to spend some money this year. You saw a lot of examples on the screen today. The micro site, the marketing activities, staffing up, working with – our partners at GoHealth, that costs money. Our goal this season is to experiment and learn. We want to understand how clients feel about H&R Block and health care.

We also want to understand how to operationally execute that to make sure it's a great experience for our clients. This is a medium- and long-term opportunity for Block, and this year we're prepared to spend some money, because we think that's a good investment. We also believe we're doing this

for a reason. We believe there's a great opportunity for Block within this as this unfolds the next few years.

In terms of our tax rate, we've worked really hard on our tax rate. In the last couple of years, we've been able to successfully resolve some international repatriation structures, so we're able to bring back cash from Canada and Australia to the United States in a tax-effective way. We've also been able to settle a number of back years with the IRS and receive large cash settlements because of that. We've also been able to do with several other smaller plans.

What we're turning our attentions to now and what we're spending all of our time on, frankly, is really on the longer-term effective tax rate reduction. This year, we think it'll be 38 percent to 39 percent. You have to recognize on the Block – at a company like Block that has retail locations in almost every jurisdiction in the United States, it's hard to be able to do much with that. However, our ability to concentrate income through financial services, as well as our digital product is really the keys to unlocking effective tax rate reduction over time. The point at which we have more details, we'll be happy to share that with you.

Next is CAPEX. This year, we think it'll be line with last year, at about 4 percent of revenues. We also believe next year, 2015, it'll be at about 4 percent of revenues, but after that, it will go back to the 3 percent more permanently. This year, last year, and next year are a reflection of underinvestment in previous years.

With higher CAPEX, at some point it becomes higher D&A. So I'll give you specific numbers here. We think \$115 million to \$125 million this year, \$125 million to \$135 million next year, and then really as the amortization and depreciation kicks in fully for these there years of elevated, and '16 you'll get \$135 million to \$145 million.

And in terms of the number of shares outstanding, we talked about this in our last quarter call. We had been making requests through the summer to buy back shares to our regulator. That didn't work out successfully. Our best estimate for this year, 2014, is we'll continue to be about 273 million shares.

Beyond that, we're really not going to be able to comment on what it may look like in the future.

So with that, I really do want to thank you all for taking the time to come and see us. Hopefully this was a good use of your time. We're going to need a couple of minutes now to set up for Q&A, but I look forward to interacting with you and thank you once again.

(BREAK).

Colby Brown: It'll take couple minutes to set up for Q&A. As we do that, I'll take a quick moment to remind you that our slides will be available on our website at www.hrblock.com. And the replay of the webcast will also be available today, as well.

If you have a question, so all of our presenters will be up on stage available to answer your questions. If you do have a question, please raise your hand. We'll get a microphone to you. Before asking your question, we would ask that, for the sake of the transcript, you would please – excuse me – you would please state your name and your company, and then you can ask your question. So with that, we'll go ahead and get started on our Q&A here.

Bill Cobb: I will add one thing before we start taking questions. As Mark was going through his slides on truing up the tax return in 2015, and I'm sure a lot of you were rolling your eyes and amazed, our two enrolled agents were sitting behind me saying, "This is great. This is great." That's the way Block people think, so complexity is our friend.

Colby Brown: We'll go to Thomas back there.

Thomas Allen: Hey, thanks, guys. On the enrollment services business, you talked about the opportunities in the pilot program, the online, and then the call center programs. Can you give us any metrics on how it's going so far? I think that – you know, I think that the overall enrollment has been, you know, slower than people expected for Obamacare in general. I think I just saw that around 400,000 people – or only 400,000 people were enrolled through the end of

November. So it's still early days, but can we just get a sense of how you think you're doing so far?

Bill Cobb: So I'm going to let Mark take a shot at that. We're not going to give any metrics. I mean, it's quite small. We actually started enrolling people actually just last week. And, Mark, if you could explain why it took that long as a web-based entry. But, anyway...

Mark Ciaramitaro: Yes, as many know, HealthCare.gov has had its share of problems, so that's impacted the entire consumer experience, as well as web-based entities, as we are operating in this space. But as Bill mentioned, we started actually being at the forefront of the industry, started enrolling clients last week, and so – yes, the industry is behind, but there's still a lot left, because the enrollment period actually goes until March of this 2014. So there's still a lot more time for enrollment capability to occur.

Bill Cobb: So just to be clear – and, Mark, correct me if I'm wrong – no one was really able as a web-based entity to do this until last Thursday. Is that correct?

Thomas Allen: And so could the delay or the website issues that HealthCare.gov has been experiencing actually benefit you? It's kind of backend-loading the overall enrollment process into the exchanges.

Bill Cobb: I think – and, again, Mark, if you want to add anything to this – you know, I think Greg characterized it, you know, as he kind of put everything together at the end. You know, we'll learning right now. It's hard for us to say, yes, it's a big benefit to us – I mean, this is – we're working in real-time here. I called it hanging around the issue, because we're surrounding this issue.

So I'm not trying to dodge your question, (Thomas), but I really don't think we know whether it's plus or minus. We just started enrolling people within the last week, so, you know, our eyes are wide open.

Thomas Allen: OK. And just a last one from me for Greg. Just on Sand Canyon, I guess we were somewhat surprised that only about \$500,000 of claims this year compared to what we've been seeing in the past, you know, past couple of

quarters and years. Anything unique going on? Is it related to the (towing) agreements? Any color would be helpful, thank you.

Greg Macfarlane: So Sand Canyon's perspective is, one, the statute of limitations is gone, and that's being reflected in behavior of counterparties. So at this point, for all – for almost completely actual complete numbers, there hasn't been a loan that was originated or sold in the last six years, which is the statute.

The second reason, which is the more important one, is really the (towing) arrangements that were entered into over the last year with the majority of the counterparties.

Colby Brown: OK. We'll go with Scott.

Scott Schneeberger: All right, thanks. Scott Schneeberger from Oppenheimer. And great job, everyone, today. You seemed very well organized, especially the teaching on health care. Great job.

I'm going to follow on the question on the health care. I know, Bill, you said you couldn't elaborate much. But just curious, anecdotally in the first two months of what you're seeing in Phoenix specifically, any color you can provide on what customers – customer behavior, as your – as your people handle them there?

Bill Cobb: Yes, Mark's been there a few times, so why don't you take that?

Mark Ciaramitaro: So, you know, I already mentioned that there's a lot of anxiety out there. And, obviously, the delays with HealthCare.gov raised the anxiety level. A lot of – we've gotten a great response to our Helpth campaign in Phoenix. Our advisors are very qualified there. The clients we're trying to serve are just ready and willing and, you know – and so now we're beginning to process, beginning to enroll them. So they really welcome Block being in the category. The Helpth message has been really a powerful message. And in the context of really not having any other place to go or to trust, we feel like we're well-positioned there.

But that being said, it's a learning opportunity. It's a pilot market for us. We still have a lot to learn about our retail thesis and whether it's viable for the long term. But generally, we're off and running, and we hope we gain a lot of good positive learnings for this year.

Bill Cobb: But we would be remiss if – and just put yourself in their shoes – I do want to call out – and I doubt they're listening – but, you know, we've hired 40 to 45 people who started October 1st. Can you imagine having your job where basically you can't do it for two months?

The attitude, the professionalism, the training – these people have been incredibly remarkable in being resilient, in working through what's obviously been a very frustrating situation.

Scott Schneeberger: Thanks, appreciate that. And then if I could ask one more, and switching it up, Greg probably more for you. OK, the discussion of driving revenue this year, it's a pricing question. I'm curious – you know, you mentioned you are going to charge for RTs, didn't want to quantify. I'm curious if you can provide any other color for how you think pricing will go this year, and particularly maybe a focus on 1040EZ, something you've offered for free for a few years, just pricing question overall, thanks.

Bill Cobb: You want to go ahead, Greg, and...

Greg Macfarlane: Yes, so, I mean, the tax preparation industry enjoys low price elasticity, and we've talked about that with you before. There are a number of reasons behind that, and we're very, very well aware of that. We're also well aware that our smaller competitors would love for us to put price up a lot. We will put price up and do prices as we think is appropriate for our tax season and our clients. For competitive reasons, we're really not going to talk about price at all right now.

Bill Cobb: And as for 1040EZ and – some analysts have commented that we will not be doing it this year. I would say to that person and to others that we're not going to disclose what we're doing. That's a promotional technique that we've used in the past. We think it's actually been a benefit to us, and we will – we

obviously have that part of our overall marketing arsenal for this year. But I'm not going to comment whether we're doing it or not.

Colby Brown: OK, let's go to Gil.

Gil Luria: Gil Luria, Wedbush. Mark, you're going to be a popular guy today. It's going to take us a while to get through your presentation. I'm personally probably going to have to go through it four or five times. But my take (inaudible)

Bill Cobb: Would you like him to speak some more? He has another hour that we cut out.

Gil Luria: My takeaway was that you know an answer to a question that a lot of us are asking ourselves, which is, how many of your customers in 2015 are going to get a tax refund or be assessed a tax penalty? What percentage of your customers do you believe that's going to be the case for?

Mark Ciaramitaro:OK. So let me just go back into the presentation and just kind of frame up what I shared with you. Our analysis indicated about 37 percent of our current retail clients are tax credit-eligible, based upon their household income and household composition. But it did not take into consideration the coverage status, right? Which is a key determiner of whether a tax penalty is going to be assessed or not.

And then in our quantitative national panel research we did, where we compared Block clients to a national panel, representative panel, we found that Block clients had doubled the propensity to be both tax credit-eligible and uninsured, which means that those populations are going to incur one of two things, a tax credit reconciliation or a tax penalty. Unfortunately, I can't share with you the specific performance, because that's proprietary research, but I think the important thing you should take away from that is that a significant number of our clients are going to be impacted either with a tax penalty or a reconciliation process in 2015.

Gil Luria: Got it. Then yesterday's number...

Greg Macfarlane: Can I just add onto that, though, Gil? So the other dimension which we don't talk about much is even there's – the direct population that's impacted, but

right now, because of just mass confusion, there are many people out there that will not be impacted by health care reform directly but are still looking for people to help make sure that's true.

So last year, we offered a simple one-page summary for clients. The response we did after the market, after last year's market was really positive on that. So there's just – everyone's got questions about health care, and so we want to be relevant for everybody.

Gil Luria: Last, one of the great things that came out of last – last night's numbers is that the Emerald Card revenue grew 20 percent, in spite of the fact you have less cards outstanding in last year, so it means that you've probably made even more progress than you showed on the slide in getting customers to retain it. You talked a lot about the fact that you want customers to retain it even longer, but one of the opportunities seems to be that you, in fact, don't charge the fees that comparable cards have.

At the point where you feel down the road where you have the higher penetration rate that you're looking for, would you think of matching the fees that GreenDot and NetSpend charge on a monthly basis or on a transaction basis in order to realize more of that potential?

Bill Cobb: Yes, I think all of that is on the table. I think for now what Greg and the whole financial services team have tried to do over the past couple of years – I think there was that one slide where he said, you know, we made a decision – really, when I came in the door, I said we've got to make this, you know, a year-round card. This can't be just a gift card that's one and done on a refund. And they worked, you know, very hard to come up with a full feature set of products, with rewards and a fee structure that, you know, we've been cited on.

So I think having set that – and as Greg said, in his – one of his last slides, you know, we're about more cards and more usage. So at this point, I think the plan you've seen is the go-forward. But as we, obviously, start to realize a vision of more cards, more usage, I think that certainly is on the table, and that's part of why we're excited about the Emerald Card.

So I wouldn't say that, yes, we're going to move to more fees in the future, but right now, the adoption curve and getting people to use this more frequently, including all of us, as you saw today, is really what our goal is.

Gil Luria: And then, finally, you gave us a lot of the pieces in terms of your view towards shareholder returns in your presentations. But this year, you're in a tricky situation. You're talking about the fact that margins are going to be flat year over year with a couple of extra expenses that are going to come in. You won't be able to buy any shares, so your earnings growth is really just limited to your revenue growth this year.

Does that make this year an investment year? Or is that a path that shareholders are going to have to find acceptable going forward?

Greg Macfarlane: So I think it's important to recognize that we really are trying to manage this company for the medium and long term. And when a business that's only opened up, for all intents and purposes, four months a year, we kind of have some realities that we have to deal with. So we're going to constantly be investing in tinkering, but if – I think in Kip's presentation he showed how the revenue really hasn't moved much, and we need to get revenue moving.

And so, yes, we're going to spend money on health care, and, yes, we're going to invest in the store experience, and, yes, we're going to invest in technology with Jason, but these aren't just done just to kind of get a pop. I mean, we want to figure out these angles here, because we have to translate that to revenue growth.

Bill Cobb: And I also think we're trying to be very balanced and measured. You know, we could have gone hurdling into the health care business and been, you know, using advertising and look – I mean, we're trying to do this, you know, Greg said, you know, (three to four cents).

We – you know, in international, we're trying to be pretty – you know, we're in India and Brazil. We haven't announced additional countries, because we still want to search through that model and not, you know, bust the bank trying to – so we're trying to balance all of that.

You know, Greg pointed out, you know, we have a big push on productivity. So we're – we're trying to balance all these levers in such a way that ultimately we realize that, you know, one of Greg's last comments – and I think it was appropriate – is, you know, we've got – you know, our number-one goal is to change the revenue trajectory, so that's really what, as we do all of these investments, to try to drive toward that.

Colby Brown: Let's go with Kartik.

Kartik Mehta: Just I guess to follow up on health care a little bit, as you look at health care and your ability to take advantage of that, do you think it – which will be bigger, the pricing part of it or driving more clients? I understand you'll get both. But what would be the biggest part of the model for you out of health care?

Bill Cobb: Kartik, when you say pricing, do you mean...

Kartik Mehta: Well, pricing maybe because there are more forms, pricing maybe because you're going to change pricing to who you provide health care information to, pricing in a sense of how you'd price any of the products that are related to that.

Bill Cobb: Yes, I think, right now, with regard to pricing, you know, we haven't even seen a form, so we don't know whether it's a simple form, a complex form, et cetera. So it's hard for us.

And, again, I think Mark laid out well 2015 is really where things start to get more interesting around the intersection of health care and taxes. So I can't – again, not trying to dodge the – we don't really know what the pricing, if you will, opportunity might be. We do think there is client opportunities in a variety of ways, and they stem from all the way over here to a new business where we're enrolling people to just the absolute confusion over, you know, whether it's Greg saying I want to make sure that, you know, I'm going to go to Block and find out if this affects me to people it does affect and all the complexities that happen.

So I think we do, you know, have sort of put off to the side the pricing element. We are focused on what this means in terms of retention and new clients. And that's really where, you know, as we seek to understand, seek to figure out how we can best help clients, that's really what the focus is.

Mark, I don't know if you have anything to add.

Mark Ciaramitaro: No, I just would reiterate that we haven't seen the IRS forms. We know a little bit about how the process needs to work on the basis of working with the IRS and looking at the act. We won't see those schedules and forms, worksheets until likely the summer, this coming summer, so we're not going to be able to comment specifically on, you know, form pricing or anything else. But that should be happening here again this summer when the IRS releases those forms.

Kartik Mehta: And then, Jason, just on the digital side, can you talk about what you expect the market growth to be for digital and, you know, what you anticipate Block growth to be, in terms of you taking more market share?

Jason Houseworth: Well, last year, the digital category grew about 4 percent, or 1.9 million returns, and in paper declined about 1.9 million returns to end at 6 million. So I think the first point is that the digital category growth is wedded to the remaining pen and paper filers.

In the coming year, we continue to see about a 4 percent to 5 percent digital category growth opportunity, and really led by online. We think online will grow – last year, it grew about 8 percent. We think it will continue to be in that – in that 7 percent to 8.5 percent. And for us, you know, our outlook is that we expect, you know, to outpace the category specifically in online.

Colby Brown: Next question? We'll go with Michael.

Bill Cobb: One of our newer analysts.

Michael Millman: Thank you. Michael Millman, Millman Research Associates. So brand new at that health care, so, Mark, is it your impression that the indies will not even

offer this product and/or that share – taxpayers will not trust them, even if they do offer this product? And then I have another unrelated question.

Bill Cobb: Mike, when you say offer the product, I mean, what...

Michael Millman: Offer help in getting their clients or everyone's clients to be able to navigate this system.

Bill Cobb: Let me be clear – and then, Mark, if you want to augment this – what Mark outlined today is not what – I mean, we offer a service. We offer a tax preparation service. This is now the law, and if you're going to prepare a tax return, you have to comply with the – what Mark laid out for you. So it's not really a product we're offering. I mean, this is now – I think Mark called it the largest change to the tax code in 20 years. And so any independent is going to have to comply with that.

I do think it's going to be daunting. You heard various snippets of it, which probably were more than snippets, but as he said, there's 46 other changes. So I think that it – you know, anybody – and this is why we do think tax preparers should be – you know, have an enhanced set of regulations in terms of their certification – I think it's going to be hard, but, you know, I don't think it's a specific, you know, product other than to say we know – we know this law and we know how to interpret it.

But I don't know if you have anything to add, Mark.

Mark Ciaramitaro: And we have actually extensively trained our tax professionals this year to help prepare clients for what – for discussions they need to have with clients to prepare them for what could happen in 2015. So – but as you mentioned, Bill, there isn't – this isn't an option. This is about tax compliance. Historically, when you see these kinds of changes to the tax code, it tends to influence people's behavior with regard to using assisted channels, because they want to sit down, talk to someone, really uncover all of the issues and concerns.

So from that standpoint, that's a historical trend, but this is really – can someone offer or not? You're not going to be in this business legitimately

providing services if you don't confront the complexities of the Affordable Care Act and taxes coming together.

Michael Millman: So are you going to market heavily to basically scare taxpayers into you'd better come to us?

Bill Cobb: Well, I don't want to be in the practice of scaring our clients.

Michael Millman: (Inaudible).

Bill Cobb: I think we will be – I think we'll be active on making sure people understand that, you know, this act. But again, I think we're talking more 2015. Really what we're offering this year in both Phoenix and with the platform is an enrollment service. The tax consequences happen a year – you know, in effectively, the next tax season, because everything is based on what happens in 2014.

So you won't see us broadly marketing, you know, this is coming, this is coming. As we look to next year, when the intersection is direct, then obviously we'll look to see what our marketing strategy is then. But, obviously, we believe it'll be an opportunity for us.

Michael Millman: My other question relates again to the paper. It looks – based on the, I guess, 1122 IRS numbers, it looks like paper came down about 3 million, 2 million, you suggest, went to do-it-yourself. The other million went to EROs. Can you talk more about – and allowed EROs to grow, I think, by about a million, and with total receipts were flat. Can you talk about what kind of growth has actually come to EROs from paper shifting?

Bill Cobb: Jason, do you want to take a shot at that? Or anybody who – I'm not sure I would be able to answer.

Jason Houseworth: Well, I think the – you know, what I mentioned, Mike, is that the digital category, you know, is a subset of DIY. DIY is 54 million returns. And within that, last year, pen and paper had 8 million. So I'm not sure, you know, the number, but this year it's about 6 million. So that decline was roughly the same rate of growth as the digital category or online and desktop software. So

from an ERO perspective, we don't have the exact numbers in order to understand where the growth came from, but I can really tell you where we see the digital category growing from, which is precisely from pen and paper.

Colby Brown: (Inaudible) Scott, another question?

Scott Schneeberger: Thanks. Scott again from Oppenheimer. With regard to – and I know with negotiations in M&A, you don't want to put much of a timeline or an end date on it, but some concern – and I'm seeing it in my e-mails right now – is just a sense of urgency, timing on a bank transaction. It's my understanding you want to get something done and have it prepared in time to change over the financial offerings by next tax season. Could you just speak to how you're thinking about timing of this? Thanks, and I have a follow-up.

Bill Cobb: So I'm going to let Greg answer this, but let me be clear. Sense of urgency should not be – I mean, we have disclosure requirements to all of you. This is as high on the priority list as anything, so there is no lack of sense of urgency. We cannot – we are not in the position to give you a specific, you know, oh, here's the 17 people we're talking to or whatever.

So there is no lack of sense of urgency. I'll let Greg talk about what is going on now, as much as he can say, in effect.

Greg Macfarlane: Yes, and just to be clear, this conversation that you just heard from Bill is what I hear from him every day, so this is my job description, right? So this is what I spend most of my time on. Greg Quarles and I spend a lot of time on it in our general counsel. So we are spending an inordinate amount of time to solve this issue.

What we have shown you to date is at the point at which there's key information, we make a release, we get on the phone, we answer your questions. And we're going to commit to continuing to do that, OK? Where we are in the process right now is we're working hard at it, and the point at which we have something, we'll be happy to share with you.

Scott Schneeberger: Thanks. And a follow-up. Has the criteria changed? And this question is specific to looking at the Emerald debit cards, looking at the RTs, looking at

the advanced line of credit, as what I've always perceived as a priority hit list. Has that gotten even stronger to someone can assist you – who can assist you with reloadable – you know, getting a reloadable program on the debit cards? Are you looking at a new mix? You had mentioned when we talked about it at the – you know, the discontinuation of Republic that you're focused on, you know, the six partners from before and maybe some others. Can you elaborate on that, maybe some things that have moved up or down the priority list? Thanks.

Greg Macfarlane: So this is an important dimension of what we're trying to solve for. As I mentioned briefly, that there's a series of constraints that we're solving for. One of the constraints is we believe firmly that there's synergy between having the Emerald Card, the Emerald Advance, and the refund transfer, which are the three primary bank products, processed and controlled at the same location. They have natural overlap from a customer experience.

We're not saying that they couldn't be broken apart, but we really genuinely believe that there's a partner out there that can do that for us, and that's what we focused in on. In the event at some point we conclude otherwise, then I think breaking them into three pieces or two pieces or some variation of that is an option that's available to us, but we think that would sub-optimize our outcome.

Bill Cobb: But I think it is fair to say – and I think Greg, one of his slides said this is a unique transaction. These are – you know, obviously, the Emerald Card is pretty much mainstream, but Emerald Advance and refund transfers are a little bit different. They've all been regulated for years now by the same regulator who would regulate any transaction.

So I do think, you know, it's, again, not a sense – you know, this is a unique transaction. Greg has described it well in terms of what our intent is. And we are working closely as we go forward so that we believe that ultimately that is – that is the best solution to have one partner.

Scott Schneeberger: Thanks for that clarification. And I snuck the microphone for one more unrelated. I noticed in the presentation versus last year's presentation, I think

it was 91,000 seasonal employees for tax season last year – meaning '12 – 73,000 for this past year. That's a big cutback with still a lot of revenue generation and strong margin enhancement, obviously. Could you just speak to that, as well as office growth or culling? I know you're replenishing offices, and that's a great strategy, but just consideration for all that above as a very broad question? Thanks.

Bill Cobb: Yes, I'm not sure – I'm not aware of any big cutback that we've made. So where – how the numbers matched up, I'd almost have Colby and Ryan want to get back to you on that, because, in effect, the difference now – as Kip talked about, 70,000, he was talking U.S., I was talking 80,000 globally. But let's make sure we – and maybe there was...

Greg Macfarlane: I wouldn't read too much into it, Scott. And in terms of the distribution footprint, two-thirds company-owned store, one-third franchise. That's not going to change materially. The number of points of distributions will always bump up and down a little bit, but generally speaking, we're kind of in the zone of where we think need to be.

Bill Cobb: But we will clarify back and get back to everybody, Colby.

Colby Brown: So a few more minutes, so we'll go over here with Steve.

(Steve O'Brien): Thanks, (Steve O'Brien) with Jefferies. Maybe a question for Jason here around the mobile solutions for DIY. Are these solutions at parity with pricing for the desktop or online versions? I mean, if you look at the pricing online, it seems like there's a simpler pricing model, maybe e-files thrown in, maybe states thrown in. So is there a potential that mobile has any kind of impact on pricing?

And then, secondly, how do you see mobile growing this year? How do you see your mobile share relative to the competitors? And, you know, some of your competitors talk about faster growth in mobile. I'd just like your perspective on that.

Jason Houseworth: So in mobile, we need to talk separately about tablet versus smartphone, (Steve). And from a pricing perspective, tablet is going to very closely

resemble the online experience. And from a smartphone perspective, it is a simplified pricing model, but I've used smartphone more as an entry level, because I might be willing to do it for an EZ, in terms of a very simple application where I can – I may choose to take a picture of a W-2 and have most of the data come in, but we view that more as a client acquisition method, and not so much about, you know, the absolute price of the smartphone product.

But when you think about growth across mobile, we really view tablet as the key growth driver within digital. And, really, I don't separate tablet from online, because my online users are also using the tablet, and my tablet users, who take in an app, can also go back to online. And so what we're trying to do – and I hope that I showed you in our interface today – was to take our online experience and design it for a tablet and to take our tablet app and to make it seamless in the way that it works, even the use of color and the iconography that we use so that the user really sees no difference when they move between a tablet and our online experience.

(Steve O'Brien): OK, thanks. And maybe if I could ask one on health care, because I'm just a little confused. If somebody walks into the office in Phoenix today, do they pay a fee to H&R Block? Or is it a promise that they will come back and do their taxes with H&R Block? I guess, what's the monetization opportunity in the office and online for all these investments that are happening right now?

Bill Cobb: So why don't you describe the situation in Phoenix? And, again, I would caution everyone that, you know, the ultimate business model has not yet been determined. But go ahead and talk about today.

Mark Ciaramitaro: Yes. The business model I shared is really a shared commission revenue, so any insurance category, it's backend commission-based revenue. There is no upfront charge for the service. Or, frankly, for you to go to any insurance person to basically help enroll them – help you enroll.

So it's a backend kind of commission-shared revenue structure that we use both on a remote-assisted and nationwide, as well as in the Phoenix. And in our Phoenix market, we have – as I indicated – 30 offices with about 40 to 45

licensed agents who you will actually sit down with those agents, and they'll provide that full suite of services. They'll take you through a complete review of your situation, estimate your eligibility, help you select the right plan that's in an unbiased way from all the plans that we currently are appointed with.

We'll then help you go through the government application, verify your tax credit, and then go through the completion of the enrollment process at the end. So it's a complete soup-to-nuts retail experience on the basis of the backend of commissions that we get from the insurance carriers. We then split that accordingly with our partner, GoHealth.

Bill Cobb: But all of our people are also instructed to set up a tax appointment.

Mark Ciaramitaro: Of course, yes.

Colby Brown: Looks like we have the last question for the back.

Efraim Levy: Hi, Efraim Levy at S&P Capital IQ Equity each other. Could you briefly differentiate some of the approaches to the different international markets?

Bill Cobb: Yes, so Canada and Australia, the simplest way to think about them is exactly what happens in the U.S. They are primarily assisted businesses. We have retail offices. We've been there for a lot of years. The brand is well-known. We're the leading branded competitor. And we go to market during their tax season. Canada's tax season begins in January, runs through April 30th. Australia's is more, in effect, their winter, so it ends October 31st. Yes.

Now, India and Brazil are two different markets. We've entered those markets. We've had good cooperation with the government. We are meeting more and more government officials all the time. And each of those markets, we are working on determining what the best business model will be. Right now, we have an array of – we have some retail offices, we have digital offerings, et cetera. And, you know, we're keeping our investment tight, but we're trying to figure out what the best way to go to market there, as those countries become more compliant with the tax code.

Part of the reasons why we've been welcomed by the government is because they are trying to figure out ways that they can collect increasing revenues from their citizens, as their, in both countries, middle class explodes. So we're – you know, I guess I could say hanging around that issue, too, in both India and Brazil.

Efraim Levy: (Inaudible) went off.

Bill Cobb: You're back.

Efraim Levy: Back. As far as the Emerald Card, I guess you wouldn't probably quantify it, but what type of incentive are you giving your reps and your team to use that card? It's not selling itself, I guess, for you.

Bill Cobb: Oh, we can tell you all about that. Do you – Greg, do you want to describe that or, Kip, how (inaudible)

Greg Macfarlane: So the tax – the two tax pros here might even be aware of this right now, but effectively it's tax plus revenue. I mean, there's a number of dimensions within a tax professional's compensation scheme, quality, experience, training, number of returns, type of returns. I mean, there's dimensions that matter there.

We also give them credit for their ability to attach products on there, so whether it's a refund transfer product, the Emerald Card product, or the – the peace of mind warranty product, they get credit for that. And it's really being measured sort of cumulatively over the season, so it's not necessarily (discrete SPF) as it were. It's not the way we've worked. Now, that gets complemented by some contests and some fun things and stuff like that, but that's generally how we are positioning the Emerald card.

Bill Cobb: Well, in addition, as they get the Emerald Card this year, as Kip and Greg pointed out, both – every one of our tax pros will get their own Emerald Card, there will be incentives for usage that will give increasing benefits I think to the tune of about \$25 or \$30 – yes, that – the more they use it, the more they get those benefits direct to the card.

Efraim Levy: You seem to have added a nice amount of features to the card that does make it attractive. And thank you for answering my questions.

Bill Cobb: OK, yes.

Colby Brown: If there are no further questions, just we'll take this opportunity to say thank you once again for attending. We do appreciate it. And, please, don't hesitate to reach out with any further questions in the future. Thank you all.

Bill Cobb: Thank you.

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