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TAX - Q1 2014 JTH Holding Inc Earnings Conference Call

EVENT DATE/TIME: OCTOBER 16, 2013 / 12:30PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good morning. My name is Taneka, and I will be your conference operator today. At this time I would like to welcome everyone to the JTH Holding, Inc. earnings conference call.

All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. (Operator Instructions.)

Thank you. Ms. Darby Schoenfeld, you may begin your conference.

Darby Schoenfeld *- JTH Holding, Inc. - Director of IR*

Thank you. Good morning, everyone, and thank you for joining us. With me today are John Hewitt, our Founder, Chairman, and Chief Executive Officer; and Mark Baumgartner, our Vice President and Chief Financial Officer. The press release announcing our first-quarter earnings was distributed this morning.

The earnings release may be accessed at the Investor Relations section of our website, located at www.libertytax.com. A replay of this call will be available shortly after the conclusion of the call. The information to access the replay was in the earnings press release.

I would like to remind everyone that today's remarks may include forward-looking statements as defined under Securities Exchange Act of 1934. 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 in our annual report on Form 10-K for the fiscal year ended April 30, 2013, and our other SEC filings. JTH Holding undertakes no obligation to publicly update these risk factors or forward-looking statements.

I would now like to turn the call over to our Founder, Chairman, and CEO, John Hewitt.

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Thank you, Darby. A lot of changes have occurred since we last talked to you. We have kept you updated via press releases and SEC filings, so the main focus of today will be Liberty's future. I will take a little bit of time up front talking about the restatement of fiscal 2013 in the first quarter, but the bulk of my time will be addressing not only the actions we are to take preparing for the upcoming tax season, but our long-term plans to manage and drive our growth.

First, we are pleased to have filed our Form 10-K for the fiscal 2013 and have the bulk of the accounting for our restatement behind us. We plan to file our Form 10-Q for the first quarter of fiscal 2014 later this week. And then the only remaining piece of our restatement is amending the 3 10-Qs from fiscal 2013, which we plan to finish by the end of our third quarter.

We were pleased with our results in fiscal 2013. For the first time in my 44-year career, the number of tax trends in the industry actually declined in a non-recessionary year. And yet we were able to still grow and thus increase our market share.

Fiscal 2013 was a rocky year for almost everyone in the industry, and I was glad to see that Liberty and our franchisees stayed committed to the fanatical customer service we have always given and will continue to provide. Our revenue grew over 12% in 2013, leading to an increase in our adjusted net income of over 13%. Returns in offices grew 2%, with our overall returns increasing 4%; and our systemwide revenue grew by 6.2%. We set a goal back in 2011 to get back into Walmart offices, and in 2013 we accomplished that goal by operating tax preparation kiosks in close to 300 Walmart locations.

During the first quarter of fiscal 2014, revenue grew by over 11%. And we added 30 new franchisees, 16 of which purchased 20 new territories, and 14 of which purchased at least one existing territory. This was about on par with last year. And now that we have completed our Franchise Disclosure Document, or FDD, we are back selling in all but three states.

While we were unable to sell for part of the second quarter, our sales force is redoubling their efforts. It is difficult to quantify the impact of not having a current Franchise Disclosure Document, because the selling season isn't over.

We have current franchisees who want to expand, and many of these expansions don't occur until later in the year. So we hope to give you more insight into the sales season during our second-quarter call.

Moving on to our preparation for the future, as we said in the press release last Thursday, we have decided to expand our executive management team by restructuring the responsibilities of our CFO and COO. We started this process a while ago, realizing that when we became a public company, the responsibilities of the CFO would increase and change. Additionally, as we grow our financial product business, the responsibilities of leading that business unit have also increased.

Mark Baumgartner has been fulfilling the responsibilities for both roles since we created JTH Financial. We have decided to create a new COO role for the JTH Financial, and Mark has elected to assume that role. He will continue as both CFO and leading JTH Financial until we can find his successor in the CFO role. We have begun the search for a new CFO.

We also realized that the role of the Chief Operating Officer needs to change. In order to restructure that role, we have begun to search for a VP of Sales and Marketing during the first quarter of fiscal 2014 and are nearing the end of that hiring process. We will also begin a search to fill the other COO duties, because Rufe Vanderpool, who was our COO, resigned last week to pursue other interests. We wish Rufe the best and would like to thank him for his contributions to Liberty over the last nine years.

As a result, our executive team will be expanding. This is a reflection of not only the growth that we have experienced in the past few years, but also the preparation we are making to help get Liberty to the next level.

One other addition to our team that I would like to mention is Kelly McKinney, who joined us in August to head up our Human Resources group. Kelly has 25 years of experience in human resources and will help us focus on programs to both retain our top talent and attract new talent as we grow.

Even more exciting for the future, we will be expanding our relationship with Walmart and plan to provide tax-preparation in approximately 500 locations in the coming tax season. Our partnership with Walmart is important to us. As we look to grow to 10,000 offices nationwide, the most difficult territories to expand into will be rural and lower-populated areas. Walmart kiosks are more cost efficient and less capital-intensive to open than a traditional office, thus allowing our franchisees to open these rural territories quicker than we would normally be able to.

This is also true with our retail relationships and plans. We continue to expand those going forward.

Another area that we have talked about a lot over the last year is our next-gen software. As you recall, our brick-and-mortar and online offerings operate on separate platforms, similar to all other companies in the industry. Next-gen gives us the ability to have both systems on the same platform, and in a format that both our offices and do-it-yourself offering can access.

It will have different client-facing appearances but will use the same database. This will allow us to better serve our customers. For example, a DIY customer who starts a return online but needs a little help would be able to visit an office, where a preparer can pick up the return where the customer left off. We will be deploying next-gen on our DIY website this coming tax season and piloting it in a few offices.

The last thing I would like to talk about today is the unknown impact that the government shutdown may have on tax season. Prior to the shutdown, all indications led us to believe that the IRS would return to a more normal date to start receiving e-filed tax returns. As of today we do not know that the shutdown will impact that timing. Hopefully we will have more insight as to when the IRS will open e-filing on our second-quarter call.

Now I would like to turn the call to our CFO, Mark Baumgartner.

Mark Baumgartner - *JTH Holding, Inc. - CFO*

Thank you, John. I would like to open my comments today by thanking our accounting team at Liberty for the hours of hard work they put in to help us deal with the restatement; get our 2013 10-K filed; and, later this week, file our first-quarter 10-Q. It was not an easy task, but we have made it through. And I appreciate the time, hard work, and dedication they gave us to see this through.

I would also like to thank our bank, Syndicate, for their understanding and help during this process. The standstill agreement we obtained in August imposed certain reporting obligations during September, and we are proud to report that we met each of these, and thus our previous noncompliance was permanently waived. Our bank partners have worked closely with us in the last few months, and we truly appreciate their commitment and ongoing support.

The restatement affected two portions of our revenue -- franchise fees and area developer fees. We used to recognize our franchise fees at the beginning of the relationship, net of an allowance for refunds; and we now recognize our franchise fees as received.

On the area developer side, we no longer account for our area developer arrangements as a franchise for accounting purposes; and therefore, instead of reporting the initial fee as revenue for franchise accounting, we now recognize them over the term of the agreement -- typically 10 years.

This change also required us to record the area developers' portion of the franchise fees and royalties in our revenue, while recording a corresponding expense for the amount due to the area developer. These two changes had the overall effect of increasing our reported revenue due to the gross-up of revenues to include AD's portion of franchise fees and royalties, somewhat offset by the decrease in revenue from spreading both the Finance franchise fees and area developer fees over periods of time.

It also increased our expenses by adding the corresponding franchise fees and royalties we pay to area developers as an expense. However, since there was an offset to the increase in revenue but no offset to the increase in expense, our historical net income was somewhat lower.

As we explained in our fiscal 2013 earnings release, at the end of fiscal year 2013 we had a balance of $39.7 million in the unrecognized revenue portion of notes receivable and $16.9 million of deferred revenue, totaling $56.6 million in unrecognized revenue. Of the $56.6 million, $38 million was related to area developer fees and will be recognized over the weighted average period of four years, subject to the receipt of payments on the related notes receivable. The remaining $18.6 million was related to franchise fees and gains on sale of Company-owned offices, and the revenue associated with these note balances will be recognized over a weighted average period of two years, subject to the receipt of payments on the related notes receivable.

Total revenues for fiscal year 2013 increased 12.5% to $147.6 million versus $131.2 million in the prior-year period. The increase in total revenue was due to the increase in royalty and advertising fees, tax preparation fees, and financial product revenue. The increase in royalties and advertising fees was a result of the 6.2% increase in systemwide revenue versus the prior-year period. This increase was a combination of the growth in our returns prepared in offices and a 4% increase in average net fee.

Tax preparation fees increased due to the increase in the number of Company stores this year. As a result of the signing of the Walmart contract late last fall, we operated a significant number of Company-owned Walmart kiosks. In addition, the number of returns our online business processed increased over 40%, in part due to an acquisition.

Finally, the increase in financial product revenue was a result of an increase in the number of financial products and processing more products in-house through JTH Financial. Similar to past years, a little more than half of our US customers chose to receive a financial product. The total number of US customers receiving financial products during fiscal year 2013 was approximately 973,000, a 5.5% increase over last year. However, this year we were able to process almost 56% through JTH Financial, an increase from approximately 21% in fiscal 2012.

Operating expenses for fiscal year 2013 increased 13.1% to $116.8 million versus $103.2 million in the prior year. The increase was primarily due to an increase in employee compensation and benefits for personnel to support anticipated growth and operating additional Company-owned stores and some one-time items. Operating expenses for fiscal 2013 included approximately $1.9 million of costs associated with being a public company that were not incurred in the prior year.

Additionally, during the fourth quarter of fiscal 2013, the cash settlement of certain stock option transactions caused the accounting treatment of some of the outstanding stock options to be changed from being classified as equity instruments to liability instruments. This caused a one-time increase in stock compensation expense of $2.6 million pretax during the fourth quarter of fiscal 2013.

Our Board of Directors subsequently approved a new policy regarding the settlement of stock options. As a result, these options return to being classified as equity instruments in the first quarter of fiscal 2014, which generated a one-time decrease in stock compensation expense during the first quarter of approximately $872,000 pretax.

Finally, adjusted net income for fiscal year 2013 was $19.5 million compared to adjusted net income of $17.2 million in the prior year. As John noted earlier, this follows our results for 2013, which were achieved in a very difficult environment.

For the first quarter of fiscal 2014, revenues increased 11.3%, from $7.2 million to $8.1 million, mainly due to an increase in the payments made by our franchisees on outstanding franchise fee note balances. Operating expenses in the first quarter increased slightly to $17.4 million, mainly due to a decrease in stock compensation expense as a result of the reclassification of stock options back to an equity instrument, which resulted in a one-time decrease in pretax stock compensation expense during the first quarter of approximately $872,000.

During the first quarter we incurred approximately $100,000 in expenses related to the restatement. We believe the total cost of the restatement will be in the range of $700,000 to $850,000, the bulk being reported in our second quarter.

As we move forward, I am excited to be assuming the role of CEO of JTH Financial. I want to thank John and our Board of Directors for their continued support and confidence in me. I thoroughly enjoyed my initial 10 years with Liberty, as I have helped support our office growth from roughly 300 to 4,500. I have often seen myself as more of an operational CFO, and this move will allow me to further lead and grow a division that I helped to create and grow thus far.

There will be no change in my responsibilities until my successor as CFO is found. I look forward to being able to focus my full attention to growing our financial products business by continually providing our franchisees and their customers with the most comprehensive tax settlement products available in the marketplace.

I would now like to turn things back to John.

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Thanks, Mark. And Operator, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions.) Arnie Ursaner, CJS Securities.

Arnie Ursaner - *CJS Securities - Analyst*

Arnie Ursaner from CJS Securities. Good morning. You mentioned in your prepared remarks that you had been able to sell new franchise units in all but three states. Obviously, depending on which states they are, it could matter more. What are the three you are not currently selling in?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

You know, Arnie, that's a detail that we will get to you before the end of the call, but I have don't have that information at my fingertips.

Arnie Ursaner - *CJS Securities - Analyst*

Perfect. No problem. The other question I have is -- obviously, a key element of your growth is new store openings; as you think about the upcoming fiscal year 2014, what are you assuming -- obviously, the timing of the agreements could impact that. What are you assuming now as the number of net new stores that you plan to open in 2014?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Arnie, that is difficult to assess right now, because we are involved in -- at the hottest part of our franchise sales season, and our franchisees can now talk about expansion. And I guess the only thing that I can say for certain is that we will grow our number of locations.

Arnie Ursaner - *CJS Securities - Analyst*

Okay. My final question -- we obviously will try to talk to you guys a little later off-line. But one line item in our model that seemed to be off a fair amount was area developer expense. Just remind me -- did we not build in enough seasonality in the way we thought about that?

Mark Baumgartner - *JTH Holding, Inc. - CFO*

The area developer expense -- Arnie, are you referring to the first quarter or for the full year?

Arnie Ursaner - *CJS Securities - Analyst*

Yes. Yes. The first quarter. We had taken the full year and basically just divvied it up by 4. But it sounds like we should have built in a lot more seasonality.

Mark Baumgartner - *JTH Holding, Inc. - CFO*

I will look at that off-line with you. I am not familiar with what was in your models prior.

Arnie Ursaner - *CJS Securities - Analyst*

Perfect.

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Arnie, The three states are Hawaii, Virginia, and North Dakota.

Arnie Ursaner - *CJS Securities - Analyst*

Major states?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Obviously, the population of Virginia Beach is near the population of Hawaii.

Arnie Ursaner - *CJS Securities - Analyst*

Have a good day. Thank you very much.

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

You, too.

Operator

Alex Paris, Barrington Research.

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Welcome, Alex.

Alex Paris - *Barrington Research Associates, Inc. - Analyst*

Thank you. Just a couple of questions; I think most were kind of covered in the overview. But just to dive a little bit more into the net new stores question, according to your press release and according to your comments, you brought on 30 franchisees in Q1. If we can't talk about the number for the full year, what did you do in Q1 of 2012 -- I'm sorry, Q1 of 2013?

And then as I prepare for my model, what did you do in Q2 of 2013? I think, as you said, Q2 is the bigger selling season, and you are going to be handicapped a little bit this year by the fact that you had a blackout period. But it sounds like you are ready to go at this point.

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Yes. Let me say that the first quarter of 2013, we did about the same -- it was almost exactly the same as 2014. And as far as -- while we are looking at that number for the second quarter of 2013, we can say for the year -- for the entire fiscal year of 2013, we brought in over 350 new franchisees.

Alex Paris - *Barrington Research Associates, Inc. - Analyst*

And then within that 300 number last year, some of them would be franchisees that came as a result of the Walmart agreement. Is that true?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

That is true. But much of that was people acquiring a Walmart territory versus a storefront. So we didn't see a huge impact or an unusual, robust year-end franchise development last year compared to the previous three or four years. It was in line with the average over that period.

Alex Paris - *Barrington Research Associates, Inc. - Analyst*

Okay. So as I recall, Q2 last year was a much bigger number than the 30 -- like 150-plus.

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

That's right. The second and third quarter, obviously, is the time when we bring in the most new franchisees. Most of the -- over two-thirds of the 350 come in during the second and third quarter.

Alex Paris - *Barrington Research Associates, Inc. - Analyst*

Okay. And then looking at the second quarter, you had said previously that your blackout period for selling franchises really began in late August as a result of the unfiled financial statements. And now you say in this press release you are back on stream as of early October.

My question is, do you have the ability to sell or to do preliminary sales during that blackout period? Or does that activity just stop 100%?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

We are blacked out for almost exactly a month. And during that period we can't even talk to any prospective franchisee. We can't offer in any way.

Alex Paris - *Barrington Research Associates, Inc. - Analyst*

Okay. Fair enough. And then, again, all other things being equal, you lost a month; but things are not necessarily equal. As you said your prepared comments, redoubling effort and things like that could offset that a little bit in the second quarter.

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

We hope so.

Alex Paris - *Barrington Research Associates, Inc. - Analyst*

Good. The second question is just a big-picture question, and it is related to Obamacare. Now, I realize Obamacare is not going to have an impact in a material way on yours or anybody else's P&L this year or next. But it is potentially a big opportunity for the tax industry, given that the government plans to administer this through the IRS. What are you doing in terms of preparation for that potential opportunity?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Well, we are doing a lot of it, and most of it is today is grassroots. We have seminars set up for our franchisees and webinar trainings on how to introduce it to the public.

So we already have thousands of potential customers that have come in to attend our seminars to learn about how ACA affects them. So we expect some tailwinds from that this year, as more people are introduced to Liberty, as we're teaching them about ACA.

And we are on national TV and local stations, and talking to the press. We were on the 700 Club this week. So we are out in the community introducing people to Liberty through the ACA process. So we do expect some benefit this tax season.

But you are right; the major impact, where 40 million or 50 million people are affected and have to file new schedules with their tax return, is going to be in 2015.

Alex Paris - *Barrington Research Associates, Inc. - Analyst*

Okay, good. And then in preparation for 2015, do you anticipate having an approach similar to, perhaps, H&R Block or Intuit that have teamed up with other people to white-label websites for them to be able to sell insurance, like eHealth and GoHealth? Any thoughts in that regard?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Yes. We are negotiating a number of opportunities so that our franchisees and ourselves can earn some of those rewards for introducing customers to get their insurance products. So we will hopefully look at announcing a similar-type arrangement.

Alex Paris - *Barrington Research Associates, Inc. - Analyst*

Great. Well, I'm impressed with the work you guys did in the first quarter, given all the challenges, as well as in fiscal 2013, taking market share from some of the bigger players in the industry. So now, with those things behind you, we expect bigger and better things.

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Thanks, Alex.

Operator

Michael Millman, Millman Research.

Michael Millman - *Millman Research Associates - Analyst*

Following up on the last question, can you give us some idea of, again, the impact of ACA? And maybe you can also add DOMA and insurance, if that should -- I mean, immigration, if that should come along, in terms of looking two years ahead of -- in volume and price, and how that affects -- this is a long question -- the brand names, and the indies, and the online?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Yes, that is a pretty broad question. Let me say that I do expect, industrywide, some single-digit increase in more people going into brick-and-mortar this year, as they are confused as to when the ACA actually is going to affect their tax return. So just the confusion is going to -- we expect an increase in people coming in to brick-and-mortar versus do-it-yourself this year.

I think the stock increase in H&R Block is really, obviously, indicative of what the market believes is going to happen. H&R Block had a poor year. They had a 3% decrease in their offices, and yet their stock is up over 50% this year, to a record, all-time high.

So I think that we would expect a significant benefit in 2015, as many of those -- the way we think of the 40 million or 50 million people that are impacted is there is going to be millions of people that are going to have to file a return that didn't have to file before. We expect to get our share of that in the industry of the 61% or 62%, at least, of those filers.

We also -- each of the filers will have an additional schedule. And traditionally, we have charged based on complexity. So that will be a benefit to the industry.

And then, thirdly, the people that have been doing their own returns, that are now having an additional schedule and additional complexity on their return -- many of them will turn to from doing their own return to coming in to a paid preparer, at least for a year or two.

So we expect a lot of benefit. Quantifying that, I haven't seen anyone with the -- forecasting the actual quantification of that.

Michael Millman - *Millman Research Associates - Analyst*

So maybe to look at that roughly, do you expect this to be focused on the brand names, or do you expect the indies to get sort of their share? And it seems to suggest you think that this can be a negative for online. I'm not sure if I'm putting words in your mouth there.

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

I do think it is a negative for online. And I do think that the brand names are going to benefit, because we are going to have relationships with -- we are going to have systems in place.

As I mentioned, we already have produced a series of seminars for our franchisees to go out to the public and introduce them to the process. We are also negotiating deals with large organizations, from charitable organizations to businesses, to introduce these -- or explain the ACA to employees and contributors of charitable organizations.

So we have a much bigger presence in the marketplace in terms of ability to partner with large organizations and get in the community. And, for example -- I mentioned the 700 Club -- to get on national TV and get exposure. So I think the three major national firms will be the major beneficiaries of this.

Michael Millman - *Millman Research Associates - Analyst*

Okay, thank you. Another area -- sorry to take up all this time -- price elasticity, generally, which hasn't seem to have shown up in the last couple of years. Can you talk about that again, regarding retail and regarding online, and regarding financial products?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

I guess my forecast over the next several years would be at least a 3% to 5% increase in pricing in all those venues.

Michael Millman - *Millman Research Associates - Analyst*

Okay, great. Thanks, John.

Operator

Scott Schneeberger, Oppenheimer.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

John, I will follow up on the ACA -- just had one more throw, and then a couple of others. You guys have a website up this year. I know it's only a couple, three weeks in. But you were talking up to the seminars that you are conducting. Any interesting data that has come through on your websites thus far?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Just that we have had hundreds of hits, and so -- but no major other impact.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Okay. Thanks. I find the next-gen software quite interesting. Simply that everything is aligned. The strategy there -- are you largely done with spending on that? Is that in good shape, or is that going to be an expensive proposition going forward?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Actually, we are about done on the roll-out's expenditure. And we will begin amortizing that as we put it into service in January.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Great, thanks. And John, same thing about the IRS. Obviously, last year was a very strange year. You had the fiscal cliff delays, had a non-recessionary year, and volume was actually down with the IRS.

I heard some of your theories before. I'd love to just get a little bit of follow-up on that. And then your expectation, more importantly, for the upcoming year -- and I guess on the assumption that the government is working and back to work soon, just to keep it simple? Thanks.

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Sure. Last year, the industry, coincidentally -- and it seems unusual that everyone in the industry projected about a 1.5% to 2% increase, from Intuit, to Block, to us, to the IRS. And it's not often that all of us agree on that.

But we all forecast that 1.5% to 2% increase in filers. And it actually was a 1% decrease in filers. So a huge 3% shift that caused the problems for the entire industry.

Well, we think that's attributable to two major reasons. Number one is the IRS required additional verification of dependents. And they required some evidence that the dependent was living with you. It could be a doctor statement, or a school record, or something of that nature. And we found that many of our customers did not -- could not produce that. Some of that was fraud, obviously. But that was a one-time hit. So that was a major component of the 3% shift in business.

The second component is some of the procrastinators took the opportunity for the fiscal cliff and the delays for some forms as late as March -- that weren't available until March -- to wait and not file. And so the procrastinators were even later than ever. And so we have seen a pickup in business since April 15 as a result of that. It is just people filing later. So those are the two components of the 3% shift in what we expected to what actually happened, in my opinion.

Upcoming this tax season, we feel that -- again, we feel good about the season in the number of filers; the employment is up. We expect at least another 1.5% to 2% increase in filing for this year, which bodes well for the entire industry.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Great, thanks. And one more, if I can sneak it in, John. Walmart -- could you give us the dynamic of who was in Walmart last year, and to what magnitude, and how that looks like that is changing year over year, now that you know your projected number? Thanks.

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

When you say who, I think you are asking me the Company store versus -- the Company office versus the franchisee. And last year, in an effort to make sure that -- last year we were honored to be offered to be in Walmart, because Walmart had both Block and Jackson Hewitt in their locations. So they really didn't need a third provider.

So we were happy -- as I said, we felt honored to be invited to be in Walmart. So we took 150 Company stores and about 150 franchised locations. This year, out of the 500, about 90% of them will be franchised locations.

Scott Schneeberger - *Oppenheimer & Co. - Analyst*

Great. Thanks, John, for taking all of my questions. And congratulations on getting past the restatement.

Operator

Matthew Kelley, Sterne, Agee.

Matthew Kelley - *Sterne, Agee & Leach, Inc. - Analyst*

I was wondering if maybe I can just get a little update on credit products that are kind of in the works, an update on the secured credit card product and how widely that will be distributed -- or marketed, I should say, during the 2014 tax season?

Mark Baumgartner - *JTH Holding, Inc. - CFO*

Plans for the coming tax season we will give on our second-quarter call. But if you look back at what we offered last year, we had a state product in 27 states. And then also, late in the season a provider partner of ours got regulatory approval for a secured credit card offering that is a type of -- can be used as a type of a refund settlement product. So we anticipate having that and rolling that out this season as well. The exact makeup of the number of states we'll discuss as we get closer to the season.

Matthew Kelley - *Sterne, Agee & Leach, Inc. - Analyst*

Okay. And what are you expecting from competitors on the availability of credit products and the reintroduction of credit products in the 2014 tax season, just more broadly for the industry?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

What we believe is that, from just buzz in the industry, is that Jackson Hewitt will not have a product. And we do know that Block tested a small amount of products -- less than 10,000, we believe, last year -- and we don't think that they are going to be in the market in any way. So we believe we are -- we have a competitive advantage in the loan offering this tax season.

Matthew Kelley - *Sterne, Agee & Leach, Inc. - Analyst*

Okay, great. Thank you.

Operator

[Stefan Mykytiuk], Pine Place Capital.

Stefan Mykytiuk - *Pine Place Capital - Analyst*

I wanted to clarify -- go back to some of the earlier questions on the blackout of the sales for franchisees. Just to clarify, when you talked about 350 franchise adds last year, that was locations rather than discrete franchise operators. Correct?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

No, many of our new franchisees -- that's new franchisees. And many of the new franchisees take out franchisees that are leaving. So that is -- what percentage is that, Mark?

Mark Baumgartner - *JTH Holding, Inc. - CFO*

It is roughly 60% by new location. So 40% are buying existing.

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

So that would be approximately 210 new locations out of 350 franchises.

Stefan Mykytiuk - *Pine Place Capital - Analyst*

Okay. But your ability to sell -- I thought that each year, about two-thirds of your location adds were to a new franchisee, right? Or to an existing franchisee.

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

That is correct.

Stefan Mykytiuk - *Pine Place Capital - Analyst*

Okay. But those aren't -- the two-thirds of new locations, then, to existing franchisees -- that shouldn't be impacted by the blackout. Is it?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Not at all. They mostly decide sometime between October 1 and December 31 that they are going to open a new office. So that didn't impact that at all.

Stefan Mykytiuk - *Pine Place Capital - Analyst*

Okay. So it's really the 40% of locations going to a new franchisee that are impacted by the blackout. And you lost one month of sales for that portion of your office adds?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

The 60% is the new territories of the new franchisees.

Stefan Mykytiuk - *Pine Place Capital - Analyst*

Okay. So that's where the impact. Okay, all right. I just wanted to get that straight. Okay, thanks very much.

Operator

Kartik Mehta, Northcoast Research.

Kartik Mehta - *Northcoast Research - Analyst*

I was wondering, considering last tax season and maybe how it started off slow, any thoughts on increasing what you might do from a marketing spend standpoint? Or are you just going to follow the same philosophy, anticipate spending about the same dollars for marketing the brand?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Well, we are going -- last year we deliberately held back in the period where the IRS wasn't accepting electronic filing. So not only did -- even though we had an increase in expectations of grabbing market share and increase in customer base, we decreased our spending last January to spend it when the customers were going to come in. So we expect a robust increase in January of this year.

Kartik Mehta - *Northcoast Research - Analyst*

And then, John, I just want to go back to an answer you gave earlier. I just want to make sure I have it right. You talked a lot about the ACA and how it will definitely help in 2015. Would you anticipate any benefit for the upcoming tax season? Or do you anticipate that the benefit will have to wait until the tax season after this?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

We do expect -- I would say that in the whole industry and at Liberty, I would say that we expect some low single-digit positive impact, for the confusion to cause people to come in and talk to someone in a brick-and-mortar and have their questions answered. And we will convert many of them to new customers.

Kartik Mehta - *Northcoast Research - Analyst*

Okay. And then, John, any thoughts on where the IRS appeal might stand on licensing independent tax preparers -- or all tax preparers, I apologize -- where that stands, or how that might turn out?

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Well, I expect one of two things to happen. If the IRS doesn't win this appeal, then I expect them to go to Congress and say, you need to give us the authority to require certification of preparers.

And since four years ago -- four or five years ago both houses passed legislation requiring the IRS to certify preparers, that in the future that they should be able to get that done. So I expect it no later than 2015. Another positive impact for that fiscal year for the industry.

Operator

And I will now turn the call back to Mr. John Hewitt for any closing remarks.

John Hewitt - *JTH Holding, Inc. - Chairman, President, and CEO*

Well, thank you, everyone, for your attentiveness. And we will look forward to seeing you soon. Have a great day.

Operator

Ladies and gentlemen, that does conclude today's conference call. We thank you for your participation. You may now disconnect your lines.

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