

REC'D DEC 31 2008

SUPERIOR COURT OF THE STATE OF CALIFORNIA
COUNTY OF SAN FRANCISCO

**THE PEOPLE OF THE STATE OF
CALIFORNIA,**

Plaintiff,

v.

**H&R BLOCK, INC., a foreign corporation;
H&R BLOCK SERVICES, INC., a foreign
corporation; H&R BLOCK
ENTERPRISES, INC., a foreign
corporation; H&R BLOCK TAX
SERVICES, INC., a foreign corporation,
BLOCK FINANCIAL CORPORATION, a
foreign corporation; HRB ROYALTY,
INC., a foreign corporation; and DOES
1 through 50, inclusive,**

Defendants.

CTC 06-449461

JUDGMENT

Judge: The Hon. Richard A. Kramer

Action Filed: February 15, 2006

Plaintiff, the People of the State of California through Attorney General Edmund G. Brown Jr. and his attorneys ("the People" or "the Attorney General"), and Defendants HRB Tax Group, Inc. (f/k/a H&R Block Services, Inc.), H&R Block Enterprises, LLC (f/k/a H&R Block Enterprises, Inc.), H&R Block Tax Services, LLC (f/k/a H&R Block Tax Services, Inc.), and Block Financial, LLC (f/k/a Block Financial Corporation) (collectively, "Defendants"), appearing

1 through counsel, have stipulated to the entry of this Judgment without the taking of proof or trial.
2 This Judgment does not constitute evidence of or an admission regarding any issue alleged in the
3 Complaint filed in this action. This Judgment does not constitute an adjudication of the
4 substantive merits of any claim or defense in this case. Defendants denied and continue to deny
5 all liability with respect to any and all of the facts or claims alleged in the Complaint filed in this
6 action, deny that they have engaged in any wrongdoing, and deny that they have acted improperly
7 in any way. In stipulating to the entry of this Judgment, neither the Attorney General nor any
8 state agency or officer has approved, sanctioned, or authorized any of Defendants' practices, acts,
9 or conduct.

10 The Court having considered the Stipulation to Entry of Judgment executed by the parties
11 and filed herewith; and good cause appearing, the Court hereby orders, adjudges, and decrees as
12 follows:

13 **I. JURISDICTION AND VENUE**

14 This Court has jurisdiction of the subject matter of this action and of the parties. Venue as
15 to all matters between the parties relating to this action is proper in this Court.

16 **II. DEFINITIONS**

17 For purposes of this Judgment, the following definitions apply:

18 A. Defendants, their predecessors, agents, employees, officers, representatives,
19 successors, partners, assigns, and all person acting in concert or participating with any of them, all
20 of whom are referred to collectively hereinafter as "H&R Block."

21 B. "Corporate-owned offices" shall refer to H&R Block-branded offices that are not
22 subject to franchise license agreements with H&R Block.

23 C. "Advertising" shall refer to (i) advertising within H&R Block corporate-owned
24 offices or other locations of direct interaction between H&R Block and consumers, including but
25 not limited to wall posters, brochures, desk signs, flyers; and (ii) advertising in television and
26 radio, newspapers, magazines, and other periodicals, the Internet, computer software, electronic
27 mail, facsimile, wire-line and wireless telecommunications, direct mail, billboards and outdoor
28 signs, outside-facing window displays, and off-site flyers and placards.

1 D. "Clearly and conspicuously" shall have the meaning explicated in the "Joint
2 FTC/FCC Policy Statement for the Advertising of Dial-Around and Other Long-Distance
3 Services to Consumers," FTC File No. P974405, 65 FR 44053, 44056, ¶ 22 (July 17, 2000).

4 E. "RALs" shall refer to Refund Anticipation Loans or substantially similar loans
5 provided by financial institutions to H&R Block customers in connection with the provision by
6 H&R Block of tax services to such customers.

7 F. "RACs" shall refer to Refund Anticipation Checks or substantially similar
8 financial products offered by financial institutions to H&R Block customers in connection with
9 the provision by H&R Block of tax services to such customers.

10 G. "Refund-Based Financial Products" shall refer collectively to RALs and RACs.

11 **III. BUSINESS PRACTICES**

12 A. All injunctive relief under this Judgment, including all relief described in
13 Paragraphs C through N of Section III of this Judgment, *infra*, is ordered under Business and
14 Professions Code sections 17203 and 17535.

15 B. Unless otherwise specified herein, the provisions of Section III of this Judgment
16 apply only to H&R Block's corporate-owned stores in California.

17 C. Any advertising for H&R Block promoting RALs must clearly and conspicuously
18 disclose that the product is a loan, and that fees and/or interest apply. H&R Block tax
19 professionals and client service coordinators will be trained to orally disclose to H&R Block
20 customers that RALs are loans that carry fees and/or interest.

21 D. Any advertising for H&R Block promoting RALs shall not use the terms "your
22 money," "your tax refund," "cash," or any similar term that implies that RALs are customers' tax
23 refunds. H&R Block tax professionals and client service coordinators will be trained not to assert
24 that a RAL constitutes the customer's tax refund, use the terms "your money," "your tax refund,"
25 or "cash" when describing RALs, or otherwise imply that RALs are customers' tax refunds.

26 E. H&R Block shall train their personnel in their corporate-owned offices to present
27 and deliver refund-based financial products to customers in the following manner:
28

1 i. During the tax interview, after the customer has expressed interest but before the
2 customer has committed to purchasing a refund-based financial product, H&R Block shall clearly
3 and conspicuously disclose both orally and in writing (1) the price of the refund-based financial
4 product(s) in which the customer expressed an interest, including all associated fees and interest;
5 and (2) that customers can get their refund directly from the Internal Revenue Service (IRS)
6 without charge.

7 ii. During the tax interview, after the customer has expressed interest but before the
8 customer has committed to purchasing a refund-based financial product, H&R Block shall clearly
9 and conspicuously disclose in writing (1) the estimated number of days within which customers
10 will likely be sent their refund if they electronically file their return and receive their refund by
11 direct deposit based on information set forth by the IRS in its "Refund Cycle Chart" and other
12 information that may be available from the IRS for that method of filing and receipt of proceeds
13 and (2) the estimated number of days within which customers will likely be sent their refund if
14 they electronically file their return and receive their refund by U.S. Mail based on information set
15 forth by the IRS in its "Refund Cycle Chart" and other information that may be available from the
16 IRS for that method of filing and receipt of proceeds.

17 iii. Whenever an H&R Block customer is presented with a list of choices of how to
18 receive the proceeds of a tax refund (including refund-based financial products), whether orally or
19 in writing, the options are presented by order of cost to the customer, from lowest cost to highest
20 cost, including delivery timelines for each option.

21 F. Advertising for H&R Block shall not use the terms "Rapid Refunds" or any
22 variation thereof in promoting or describing refund-based financial products.

23 G. H&R Block shall follow the procedures outlined below at their corporate-owned
24 offices with respect to outstanding debts allegedly owed by H&R Block customers to H&R
25 Block, H&R Block's RAL-lending bank(s), or any other RAL-lending bank(s) seeking to collect
26 debts from H&R Block's customers for prior tax preparation fees or a refund-based financial
27 product:
28

1 i. At the start of the tax preparation interview, H&R Block shall ascertain, by
2 referencing the customer's Social Security Number against information provided by RAL-lending
3 bank(s), whether the customer appears to owe a debt.

4 ii. If, upon reasonable inquiry at the start of the tax preparation interview, as outlined
5 in subsection (i) of Paragraph G, *supra*, H&R Block discovers that the customer appears to owe a
6 debt, H&R Block shall instruct their personnel to make the following disclosures to the customer
7 orally and in writing, before proceeding further in the tax preparation interview: (a) the customer
8 appears to owe a debt for prior tax preparation fees or a refund-based financial product, (b) if the
9 customer applies for a RAL, any prior debt may result in denial of the RAL, and (c) if the
10 customer applies for any refund-based financial product, any prior debt will be withheld from any
11 tax proceeds.

12 iii. At the time of disclosure, as outlined in subsection (ii) of Paragraph G, *supra*,
13 H&R Block shall offer the customer the opportunity to call the bank offering the refund-based
14 financial products to determine the amount of debt claimed to be owed and to whom the debt is
15 claimed to be owed. H&R Block shall provide the customer with a toll-free number of the bank
16 and inform the customer that he or she may use a telephone in the office to place the call.

17 iv. In the event that material modification(s) of the procedures described in Paragraph
18 G are required as a result of changes in practices by the bank(s) offering refund-based financial
19 products, H&R Block will notify the Attorney General of such modification prior to
20 implementation and seek modification of this Judgment.

21 H. H&R Block and/or their corporate-owned offices shall not enter into agreements
22 with check-cashing institutions or purveyors of check-cashing machines through which H&R
23 Block receives a portion of a check-cashing fee for cashing refund-based financial product checks
24 without also adequately disclosing to their customers that H&R Block receives a fee.

25 I. H&R Block shall provide appropriate annual training in the requirements of this
26 Judgment to all persons who work in an H&R Block corporate-owned office who offer, provide,
27 assist in providing, or discuss with customers any refund-based financial products or other H&R
28 Block products and services mentioned in this Judgment. This training shall be offered in

1 October, November or December of each year. H&R Block shall ensure that all California
2 corporate-owned H&R Block offices provide training to new H&R Block personnel (i.e., those
3 personnel hired after the October, November, or December annual training has occurred) in the
4 requirements of this Judgment as applicable to their job descriptions prior to the new personnel's
5 communicating with H&R Block's customers about any refund-based financial products.

6 J. H&R Block shall provide all California corporate-owned H&R Block office
7 managers, all California H&R Block franchisees (with instructions to provide the materials to the
8 manager of each office), all H&R Block California franchise applicants, and all of H&R Block's
9 RAL-lending banks a copy of (i) the first page, (ii) the "Business Practices" portion, and (iii) the
10 signature page of this Judgment.

11 K. H&R Block shall not provide, directly or indirectly, information, materials, or
12 training that is inconsistent with the terms of this Judgment to any H&R Block corporate-owned
13 or franchise office in California or to their personnel or permit conduct that H&R Block knows or
14 reasonably should know is inconsistent with the terms of this Judgment by any H&R Block
15 corporate-owned or franchise office in California or their personnel.

16 L. H&R Block shall not make or produce, directly or indirectly, any advertising that
17 is inconsistent with any of the disclosures required by this Judgment.

18 M. If it comes to H&R Block's attention that H&R Block personnel are not complying
19 with the terms of this Judgment, H&R Block will undertake appropriate remedial measures to
20 facilitate compliance. At minimum, H&R Block will utilize "mystery shopping" at three
21 corporate-owned offices in each of H&R Block's six California regions, to be visited in each tax
22 season for 2009, 2010, and 2011, to assess compliance with corporate standards and with the
23 terms of this Judgment.

24 The mystery shopper(s) shall assess the following: (i) whether the corporate-owned office
25 used or had available any advertising materials promoting refund-based financial products that
26 were not approved by H&R Block and/or not in compliance with corporate standards and the
27 terms of this Judgment; (ii) how the receptionist responded to the question "How fast can I get my
28 refund?"; and (iii) what information was provided to the mystery shopper(s), both verbally and in

1 writing, when the mystery shopper(s) expressed an interest in purchasing a refund-based financial
2 product. Based on the mystery shopper(s)' findings, H&R Block shall take appropriate action to
3 address any compliance issues.

4 Upon request by the Attorney General, up to once a calendar year, H&R Block will
5 provide a declaration confirming, under penalty of perjury, that they have complied with the
6 mystery shopping requirements of Paragraph M of Section III of this Judgment.

7 N. Paragraphs C through M of Section III of this Judgment, *supra*, shall apply to tax
8 preparation operations that H&R Block may acquire in the future as follows:

9 i. Every H&R Block corporate-owned office acquired before September 1st in any
10 calendar year must be in compliance with the requirements of this Judgment prior to the start of
11 the upcoming tax season year. For example, a tax preparation operation acquired by H&R Block
12 on August 31, 2008 must be in compliance with the requirements of this Judgment by January
13 2009.

14 ii. If H&R Block acquires 3 or fewer tax preparation offices in California on or after
15 September 1st in any calendar year, H&R Block shall implement the requirements of this
16 Judgment in those newly acquired offices no later than the start of the following year's tax
17 season. For example, if H&R Block acquired only 3 new tax preparation operations in California
18 on or after September 1, 2008, those three acquired offices must be in compliance with the
19 requirements of this Judgment by January 2010.

20 iii. If H&R Block acquires more than 3 new tax preparation offices in California on or
21 after September 1st in any calendar year and none of the newly acquired stores advertises or
22 promotes itself to consumers as a H&R Block-branded office in the upcoming tax season year,
23 H&R Block shall implement the requirements of this Judgment in those newly acquired offices
24 no later than the start of the following year's tax season. For example, if H&R Block acquired
25 ten new tax preparation operations in California on or after September 1, 2008 but those newly
26 acquired stores continue to operate and promote themselves under their former names in tax
27 season 2009, those ten stores must be in compliance with the requirements of this Judgment by
28 January 2010.

1 iv. If H&R Block acquires more than 3 new tax preparation offices in California on or
2 after September 1st in any calendar year and any of the newly acquired stores advertises or
3 promotes itself to consumers as H&R Block-branded offices in the upcoming tax season year,
4 H&R Block shall implement the requirements of this Judgment in those newly acquired and H&R
5 Block-branded offices as follows: (a) compliance with Paragraphs C, D, F, H, J, K, and L of
6 Section III of this Judgment within 14 days of acquisition and (b) compliance with Paragraphs E,
7 G, I, and M of Section III of this Judgment, and the remainder of this Judgment, as applicable,
8 within 90 days of acquisition. For example, this subsection (iv.) of Paragraph N will apply to
9 four or more stores that H&R Block acquire after August 31, 2008 if those stores will advertise or
10 promote themselves as H&R Block-branded corporate-owned offices in tax season 2009.

11 O. H&R Block's obligation to comply with the provisions of Section III of this
12 Judgment shall terminate thirty-six (36) months following entry of this Judgment.

13 **IV. RESTITUTION**

14 A. Pursuant to Business and Professions Code sections 17203 and 17535, on entry of
15 Judgment, H&R Block shall jointly and severally pay the sum of two million four hundred fifty
16 thousand dollars (\$2,450,000). The money paid under this paragraph shall be used to effectuate
17 the restitution program, including payment of all costs of administering the program, as set forth
18 in Section IV of this Judgment. H&R Block will not be responsible for paying any additional
19 amount in connection with the administration and distribution of restitution funds. The Attorney
20 General, in his sole discretion, shall determine which of H&R Block's California customers who
21 paid anything in connection with a RAC or RAL between January 1, 2001 and entry of this
22 Judgment may receive restitution distributed pursuant to this Judgment and in what amounts.
23 Any amount paid directly to any customer as part of the settlement of Civil Action 03-C-134 in
24 the Circuit Court of Kanawha County, West Virginia (the "West Virginia case") may be set off
25 against any amount to be paid under this Judgment.

26 B. The Attorney General, if he so chooses, may forward the entire amount set forth in
27 Paragraph A of Section IV of this Judgment, *supra*, or any portion thereof, to a third party
28 organization, entity, or person of his sole choosing, which shall act as the Administrator (the

1 “Administrator”) in distributing such funds for the purposes set forth in Paragraph A of Section
2 IV of this Judgment, *supra*. The Administrator’s responsibilities, as set forth in this Judgment,
3 shall be described in a letter of engagement to be approved by the Attorney General.

4 C. The restitution funds H&R Block pays shall be transferred to a separate interest-
5 bearing account (“Account”) established by the Administrator for the purposes of this Judgment.
6 Any interest earned on this amount shall be added to that Account.

7 D. H&R Block shall, at their expense, promptly provide to the Attorney General and
8 the Administrator all documents and information in electronic format to any request made within
9 180 days from entry of this Judgment by the Attorney General or the Administrator for the
10 purposes of: (i) determining which consumers may be eligible to receive restitution under this
11 Judgment; (ii) determining the amount for which each consumer may be eligible; (iii) determining
12 the identity and location of each consumer who may be eligible; and (iv) facilitating the
13 distribution of funds to consumers and for the Administrator’s performance of its duties under
14 this Judgment.

15 The documents and information to be provided upon request include, without limitation:
16 databases or spreadsheets; identifying information about customers, including names, most recent
17 addresses, e-mail addresses, Social Security Numbers, and driver’s license numbers; for each
18 year, the amount of RAL, RAC, or collection payments made on RALs or RACs in California;
19 and the amount and date of any money each California customer received under the West
20 Virginia case and the years and amounts per year on which that payment was based. The
21 information received by the Administrator and Attorney General and all information generated by
22 the Administrator shall be treated as confidential personal identifying information and shall not be
23 disclosed to any other third parties except with respect to government agencies for the sole
24 purpose of locating consumers who are eligible to receive any funds under the terms of this
25 Judgment or unless required by law.

26 E. If the amount in the Account is not depleted after 200 days after the initial mailing
27 of checks, despite efforts by the Administrator to locate and distribute payments as provided
28 above, then any money remaining in the Account shall be disbursed to the Attorney General for

1 additional fees and costs. A certified check (or equivalent) payable to the Attorney General
2 drawn by the Administrator for the residual amount, if any, shall be delivered to the Attorney
3 General as soon as practicable in accordance with the terms of this Judgment.

4 F. The Administrator shall provide a final accounting to the Attorney General and
5 H&R Block of the cumulative amount paid to consumers and the cumulative amount transferred
6 by the Administrator to the Attorney General.

7 G. Neither the Administrator nor H&R Block shall use any information about the
8 current addresses of customers or other information obtained through the restitution process to
9 solicit those customers for any purpose.

10 **V. COSTS AND CIVIL PENALTIES**

11 A. On entry of this Judgment, H&R Block shall pay, by bank check or certified check
12 (or the equivalent) payable to the Attorney General of California, costs and civil penalties in the
13 amount of two million four hundred thousand dollars (\$2,400,000), five hundred thousand dollars
14 (\$500,000) of which shall be in satisfaction of the amount to be paid for civil penalties in favor of
15 the People under the Judgment and one million nine hundred thousand dollars (\$1,900,000) of
16 which shall be for costs of investigation and attorney's fees.

17 B. All payments required to be made to the Attorney General, and all notices required
18 to be provided to the Attorney General, shall be delivered to Senior Assistant Attorney General
19 Frances Grunder at her address of record.

20 **VI. OTHER PROVISIONS**

21 A. The People shall not seek to enforce the injunctive provisions of this Judgment
22 under Code of Civil Procedure sections 1209 *et seq.* or any other applicable provision of law
23 against H&R Block for violations that are the result of the isolated conduct of a single H&R
24 Block employee at H&R Block's corporate-owned offices, if H&R Block did not know or have
25 reason to know of or consent to the conduct; H&R Block provided training as required by the
26 Judgment and the employee in question took the training; as soon as H&R Block became aware
27 of the violation, H&R Block brought the violation to the employee's attention; H&R Block took
28

1 appropriate corrective action, which may include retraining of that employee and others; and
2 H&R Block provided appropriate relief to affected consumers.

3 The Attorney General agrees that before seeking any relief in this action from any court
4 against H&R Block for any violation of the Judgment, it will give H&R Block thirty (30) days'
5 written notice of the alleged violation. H&R Block shall be provided the opportunity to respond
6 to the Attorney General regarding the alleged violation within the thirty (30)-day period.

7 However, nothing in Paragraph A of Section VI. of this Judgment shall bar the Attorney General
8 from seeking a preliminary injunction or temporary restraining order before the expiration of the
9 thirty (30)-day period if, in his or her discretion, the Attorney General believes that step is
10 necessary because the violation poses a threat to the health, safety, or welfare of the residents of
11 the State of California.

12 B. This Judgment is intended to resolve the practices as specifically set forth in the
13 Complaint filed in the above-captioned action at H&R Block's corporate-owned offices. This
14 Judgment is intended to release H&R Block and their parents, subsidiaries, and affiliates from
15 claims, demands, causes of actions, and suits by the Attorney General pursuant to Business and
16 Professions Code sections 17200 *et seq.* and 17500 *et seq.* based on activities, conduct, or
17 practices set forth in the Complaint that occurred prior to the entry of this Judgment at H&R
18 Block's corporate-owned offices.

19 C. This Judgment does not obligate H&R Block to pay the Attorney General any
20 sums of money in addition to those amounts specified in Sections IV and V of this Judgment.

21 D. Nothing in this Judgment shall be construed as relieving H&R Block of their
22 obligation to comply with all applicable local, state and federal laws, regulations or rules, nor
23 shall any of the provisions of this Judgment be deemed to be permission to engage in any acts or
24 practices prohibited by any applicable law, regulation, or rule.

25 E. Upon request by the Attorney General, up to once a calendar year, Defendants
26 shall provide the Attorney General with an amended list of all of Defendants' corporate-owned
27 offices in the State of California at the start of each tax season for 2009, 2010, and 2011.

1 F. This Court shall retain jurisdiction over this matter to enable any party to this
2 Judgment to apply to the Court at any time for further orders and directions as might be necessary
3 or appropriate to construe or carry out this Judgment or for modification of the injunctive
4 provisions of this Judgment.

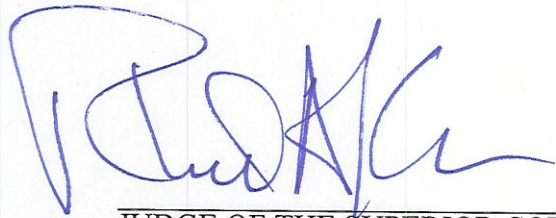
5 G. This Court shall retain jurisdiction over this matter to enable the People to apply at
6 any time to enforce any provision of this Judgment and to punish any violation of this Judgment.

7 H. This Judgment shall take effect immediately on entry by the clerk, and the clerk is
8 ordered to enter this Judgment immediately.

9 I. All DOE Defendants are hereby dismissed.

10 Dated: December 31, 2008

11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28



JUDGE OF THE SUPERIOR COURT

SF2006600363
40298423.doc